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PROPOSED VETERANS' ADMINISTRATION BUDGET FOR FISCAL YEAR 1989

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

MARCH 2 AND MARCH 3, 1988

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PROPOSED VETERANS' ADMINISTRATION BUDGET FOR FISCAL YEAR 1989

WEDNESDAY, MARCH 2, 1988

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 334, Cannon House Office Building, Hon. G.V. (Sonny) Montgomery (chairman of the committee) presiding.

Present: Representatives Montgomery, Applegate, Mica, Evans, Kaptur, Penny, Rowland of Georgia, Bryant, Florio, Gray, Robinson, Stenholm, Harris, Kennedy, Patterson, Johnson, Jontz, Solomon, Hammerschmidt, Wylie, Stump, Ridge, and Rowland of Connecticut.

OPENING STATEMENT OF CHAIRMAN MONTGOMERY

The CHAIRMAN. The committee will come to order.

Today we start our hearings on the administration's proposed budget for the Veterans' Administration for the fiscal year 1989. To the Members, you have in front of you—and it was also sent to your offices—an analysis of the VA's budget.

Our leadoff witness is VA Administrator Tom Turnage. Mr. Administrator, we welcome you to this hearing this morning as well as your staff. I see you brought a big team up here. That's good; we want them to hear what the Members have to say about this budget.

I'd like to introduce Mrs. Turnage, who came with you this morning, and also Mrs. Gronvall. Please stand up.

Last Friday we did mail to each Member a brief analysis of the President's proposed budget. We were a little disappointed that we didn't receive it until 1:30 p.m. on Thursday, February 18. We really haven't had enough time to study and review the budget documents prior to this hearing. Since we must report our recommendations to the Budget Committee by March 8—today is March 2—we had to proceed with our hearings even though we would have liked more time to digest the budget.

I might say, Mr. Administrator, this budget sent up here by OMB is very misleading. It proposes budget authority for the next fiscal year in excess of $30 billion, an apparent increase of $2 billion over budget authority in 1988. A closer look, however, reveals that about one-half of the increase would go to pay for the administration's controversial credit reform legislation, which means an up-front loan program to be paid for. That would be $1.1 billion of the $2 billion I'm talking about. The rest of the $2 billion difference is a result of understating your 1988 needs by over $1 billion. In fact, in real terms, if you take out credit reform and factor in the needed supplementals for 1988, the actual budget authority for 1989 is $178 million lower than 1988.

I am very aware that the summit agreement on deficit reduction limits the discretionary budget authority to 2 percent. However, the President's policy for the overall budget to run the Government proposes increases in several high priority programs while reducing or terminating others. I point out that NASA, Education, and Energy have had a good increase, but not the veterans.

I am certain that all of us on the committee feel that veterans' health care should have received some priority. The proposed medical care budget of $10.3 billion is an increase, my colleagues, of 2 percent from last year. CBO estimates the inflation rate will be 4.5 percent. The projected medical inflation rate is expected to be 7 percent. So this means the medical care budget is a deficit budget.

We believe the health care budget is short about $370 million of a VA-projected current services budget. The budget includes a proposed decrease of 2,439 employees. This staff reduction would occur despite VA-projected workload increases—we're going to have more veterans using our facilities—of 2,760 hospital admissions and 211,000 outpatient visits in 1989.

Even though we have an ever-increasing demand for nursing home care, only one new VA nursing home is proposed in the budget—a 120 bed unit in Tampa, Florida.

The administration is requesting about $1.3 billion for AIDS, but none of the funds would go to the VA even though the agency is providing care for approximately 6 percent of the AIDS patients. And we're also doing the research on it, as you know. We tried to get part of the $1 billion last year, as Dr. Rowland knows, that was earmarked for AIDS. It didn't mention the Veterans' Administration in any part of it. They requested $1.3 billion for AIDS and not a penny is earmarked for the VA. As chairman of this committee, I'm trying to work through the House Appropriations Committee to see that part of those funds are earmarked and moved over to the Veterans' Administration where we treat the patients, where we're doing health care research and where we are doing some education.

For the Department of Veterans' Benefits, the situation got worse. Even though the adjudicators in most regional offices cannot meet current Central Office fair time standards, the budget calls for a reduction of 492 full-time employee equivalents; 248 come out of staffs in the regional offices.

Funds for the Department of Veterans' Benefits long-awaited computer modernization program appear to have been dropped from the budget, which means that veterans are going to experience even longer delays in getting timely responses from the agency.

Finally, the OMB policy of forcing the sale of VA home loans at great discounts and other decisions to reflect a brighter budget picture from one year to another has finally depleted the revolving fund. Even though there is a current need for $1 billion, we understand that a supplemental may be forthcoming to tide things over for a few months with the hope that more cash sales can take place to make up the difference. If the supplemental is not passed before the end of March, chances are better than 50–50 that there will be no money to pay outstanding claims following foreclosures.

For a quick review of the budget, Mr. Administrator, you can see that it tells us that things are not well. Maybe you and your staff can enlighten us and tell us that things are not what they seem to be.

I will insert my prepared remarks into the record at this time.

[The prepared statement of Chairman Montgomery appears on p. 75.]

The CHAIRMAN. So that Members will have enough time to ask questions, we'd like you to summarize your statement, Mr. Turnage. Your prepared statement will appear in its entirety in the record.

Now I'd like to yield to the Ranking Minority Member of the committee, Jerry Solomon of New York.

OPENING STATEMENT OF HON. GERALD B.H. SOLOMON

Mr. SOLOMON. Thank you, Mr. Chairman. General Turnage, your staff and your families out there, welcome to the committee.

Mr. Chairman, four other Members are attending other meetings this morning—Chalmers Wylie, Dan Burton, Michael Bilirakis, and Jack Davis. There are all kinds of meetings going on. I have a Foreign Affairs meeting going on at the same time, starting in a few minutes. But they will probably be here later, if they can manage to get away.

Mr. Chairman, let me just say I concur with everything that you've stated here this morning, as I usually do. For the past several years, this committee has been faced with more and more difficult challenges as the Federal deficit is reduced, or attempted to be reduced. But by working together as a bipartisan group with a shared concern for veterans, we have always been able to maintain a basically current services budget for the Veterans' Administration, which is absolutely imperative. And for fiscal year 1989, our goal should be no different.

A current services budget for the VA is unquestionably justified both in the overall performance of the VA with the budget dollars it has already received and for the real needs of the veterans. Mr. Chairman and my colleagues, in the area of health care the VA each year has been treating more veterans as inpatients and outpatients without spending more money when expenditures are adjusted for inflation. This is a noteworthy achievement and I congratulate the VA because they have evidently done this under very difficult circumstances. Yet there is a limit to what is possible and the proposed VA 1989 budget would simply stretch the VA beyond what the agency can reasonably be expected to do, particularly in health care but also in the delivery of other veterans' entitlement benefits as well.

The VA cannot stand any more staffing cuts while continuing to treat the same number of patients or more without lowering the level of quality. As a layman, I believe that and I think every Member of this committee believes that. Hospital beds will have to be closed for lack of staff—that's obvious. And that goes completely against the policy of this committee because we want to maintain those beds whether it's for medical care purposes or whether it's for future nursing home care. If we close those beds, we will never open them up again in the next 10 years. We have to keep those beds open to face the geriatric problems that we will have with an aging veterans population in this country. It's a serious matter. I know I don't have to tell you that because I know you believe it as strongly as I do.

The remaining staff of dedicated health care professionals is too often over-worked and under-paid. Who could blame them if they become discouraged under circumstances like this with these fiscal restraints. I'm not painting a pretty picture because it's not a pretty picture to paint.

The proposed $10.3 billion for health care, as Sonny Montgomery has said, is 2 percent more than last year. But it is still $370 million short of a current services budget, which we are going to have because the rise in inflation is expected to be about 4.5 percent, and higher in the medical area.

How the VA will be more productive using high technology medical procedures is beyond me when a decrease of $34.4 million is planned for the purchase of high technology medical equipment and devices. Again, that goes contrary to the feelings of this committee, and I'm sure, the committee in the Senate.

Mr. Chairman, I intend to keep my comments brief if I can, but there is one other part of the proposed budget I want to mention that you touched on, and that is the Home Loan Guarantee Program which historically has been one of the most successful VA programs for veterans. And it enjoys the continuing strong support of this committee. However, with a cost of over $900 million for fiscal year 1988 and a request for $658 million for this coming year, the shortfalls in the loan guarantee revolving fund, which are reflected by these requests, are soon going to drown out the program in red ink if something isn't done about it, and done about it now. The program used to be self-sustaining and we ought to get back to a self-sustaining position. I'm going to do everything I can work with you, Mr. Chairman, and with Marcy Kaptur and Dan Burton, to see if we can't straighten out that problem.

Mr. Chairman, I have a number of questions which we can ask during the testimony. But having said all I just said, General Turnage, I want now to commend you and your staff for a great job, again under very difficult circumstances. When you have the tight dollar, it's very hard to do the job. I know you're sincere and everybody on your staff is sincere, so keep up the good work. Let's work together to try to come up with a budget we can really live with that will really help the veterans of this nation.

Lastly, let me deeply thank you for your support of raising the Secretary of Veterans' Affairs up to Cabinet-level status and creating a Department of Veterans' Affairs. We will succeed, thanks to you and Ronald Reagan and everybody else who has put their weight behind this legislation. Thanks.

Administrator TURNAGE. Thank you, sir.

The CHAIRMAN. Thank you.

John Paul Hammerschmidt?

OPENING STATEMENT OF HON. JOHN PAUL HAMMERSCHMIDT

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Mr. Turnage, Mr. Harvey, Mr. Ivers, and Department Directors of the VA, welcome. Before I comment on the budget, Mr. Chairman, I wish to speak for just a moment about VA medicine.

During the debate on legislation to elevate the VA to Cabinet department, we've seen a number of news stories suggesting that the VA should get out of the medical business, or that the VA should be folded into the Department of Health and Human Services. As Ranking Member of the Subcommittee on Hospitals and Health Care, I know that these news stories are sadly misinformed and they're a disservice to our veterans.

Certainly the VA system is not perfect. However, it is a system that is linked to the private sector by its excellent medical school affiliations. It is involved in the important research and it is involved in giving good treatment to good people—the veterans of our nation's wars. For my part, I believe that the vast majority of the Congress feels this way. So I'll resist any effort to dismantle the VA medical system. I'll resist any attempt to bail out overbedded non-VA hospitals by the establishment of a voucher system. And I'll resist efforts to reduce the VA program below current services levels.

With respect to current services, we need to carefully examine the 1989 budget recently submitted to the Congress. Clearly, as has been stated here this morning, this budget needs enhancements to the suggested medical care appropriations.

We live in a time of highly necessary fiscal restraints and I strongly support deficit reduction. However, I do not believe it should start by reducing the number of VA medical employees by almost 1,800. It should not start by reducing the number of planned nursing care beds for veterans in the face of an ever-increasing population of older veterans.

I can assure those of you here today that these cutbacks will not be acceptable as long as I'm Ranking Member of the Hospitals and Health Care Subcommittee. I'm also confident they will not be acceptable as long as Jerry Solomon is the Ranking Member of this committee, nor will they be acceptable as long as G.V. Sonny "General" Montgomery is chairman.

Thank you, Mr. Chairman.

Mr. MICA. How about the rest of us?

The CHAIRMAN. Thank you. Good statement, Mr. Hammerschmidt. We'll move right along and I want the witness to know that we have excellent attendance this morning. We're very proud of our attendance. The Members of this committee do come to the hearings and we appreciate it very much.

General Turnage?

STATEMENT OF HON. THOMAS K. TURNAGE, ADMINISTRATOR OF VETERANS' AFFAIRS, VETERANS' ADMINISTRATION; ACCOMPANIED BY THOMAS E. HARVEY, DEPUTY ADMINISTRATOR; R. J. VOGEL, CHIEF BENEFITS DIRECTOR; JOHN A. GRONVALL, CHIEF MEDICAL DIRECTOR; WILFRED L. EBEL, CHIEF MEMORIAL AFFAIRS DIRECTOR; DONALD L. IVERS, GENERAL COUNSEL; JAMES DEWIRE, CHIEF OF STAFF; CONRAD HOFFMAN, CONTROLLER; RICHARD GREENE, ACMD; SUSAN LIVINGSTONE, ASSOCIATE DEPUTY ADMINISTRATOR FOR LOGISTICS; AND MARJORIE QUANDT, DIRECTOR, STRATEGIC PLANNING SERVICE

Administrator TURNAGE. I appreciate that fact also, sir. It's a real pleasure to meet with you this morning to discuss the VA's budget request for fiscal 1989. I'd like to briefly summarize the request, highlighting some of the agency's major accounts. But I emphasize at the outset that these are a summarization of what otherwise I would hope would be put into the record, sir.

Veterans' benefits. The largest portion of this budget request is for this particular program which at $16 billion constitutes over 57 percent of the total budget. About two-thirds of these funds, or $10.7 billion, will provide compensation payments to over 2.5 million veterans and survivors. Another $3.9 billion will provide pension payments to 1.2 million recipients. We're proposing to index compensation benefits to the Consumer Price Index to ensure timely recognition of consumer price increases. We've requested $658 million to support operations in the loan guaranty revolving fund. This request would fund nearly $3.7 billion in obligations estimated for this fiscal year.

Medical care. I'm pleased to note that, while the President's budget is in compliance with the bipartisan budget agreement, the VA share allows us to continue to provide quality medical care to America's disabled and needy veterans. We are requesting a medical care budget of over $10 billion. The funds will provide for the medical care and treatment of 1.2 million inpatients and over 23 million outpatient visits. Over 192,000 full-time employee equivalents are requested to meet the medical needs of these veterans. To help alleviate the nurse shortage, the Veterans' Administration has requested legislation to expand the authority to allow tuition reimbursements to nurses for nursing degree-related courses.

In memorial affairs, we are requesting $47.4 million. Total interments are expected to increase by 2.5 percent to a total of 56,400. Funding is included in our construction budget for the expansion of the Calverton National Cemetery by 90,000 grave sites. Also requested is funding for maintenance and repair projects in order to preserve the national cemeteries as fitting tributes to our nation's veterans.

The VA's request for fiscal 1989 construction dollars includes over $500 million for projects at medical centers, regional offices, and national cemeteries. Major construction funds are proposed for 14 sites, including construction funding for replacement and modernization projects in Atlanta and Pittsburgh.

The funding request also includes funds for a domiciliary at Mountain Home, Tennessee and for large clinical projects at Beckley, West Virginia, Nashville, Tennessee, Perry Point, Maryland, and San Antonio, Texas.

Mr. Chairman, I believe that our budget request reflects the necessary concern for fiscal restraint while it supports our commitment to meeting the needs of our veterans. My staff and I are pleased to answer any questions that you may have.

[The prepared statement of Administrator Turnage appears on p. 80.]

The **Chairman**. That's the type of statement we like, General Turnage. You're starting off on the right foot anyway.

The Chair will not ask questions right now, so I'll start with Doug Applegate and then come back to you, Jerry Solomon.

Mr. **Applegate**. Thank you very much, General, for your short statement and what was stated in the long statement. I can concur with our chairman and with my two colleagues, Mr. Hammerschmidt and Mr. Solomon, who preceded me, in some of the statements they've made.

It's been stated that the overriding concern governing the VA's budget has been to provide sufficient resources for the Veterans' Administration to meet its statutory and equity-base obligations for veterans' benefits and health care. This is not reflected in the President's budget request for fiscal year 1989, particularly to the extent that it calls for a reduction in staffing of 492 full-time employees in the Department of Veterans' Benefits. Of this figure, 248 would come out of the division which adjudicates compensation, pension, and education claims. Another 73 would come out of the division which at the local level provides information, advice, and assistance to veterans and their families regarding the availability and procurement of benefits.

I've said it before—as a matter of fact last year—that this committee will not accept wholesale cuts in DVB staffing levels, certainly not as long as the timeliness in claims processing continues to fall. I can assure you once again that my subcommittee will be looking very closely at the VA claims process with special regard to staffing levels and the DVB modernization project.

Finally, with regard to the President's estimate of an indexed 4.2 percent COLA, I will be introducing appropriate legislation to affect a statutory increase that will accurately reflect the change in the CPI. At this point it may be too early to conclude that 4.2 percent will be sufficient to offset the effects of inflation. Having said that, I do have a couple of questions that I would like to throw out at you.

First, according to data that have been provided by the Veterans' Administration, during fiscal year 1987 only 30.9 percent of the compensation claims were completed within 90 days. In fiscal year 1982 41.5 percent of these claims were completed within the same period. How do you account for the decline in the service and is it going to continue during 1988? I think we know the answer to that, but I'd like to hear your answer.

Administrator **Turnage**. Let me ask the expert in that field to respond to specifics, Mr. Applegate.

Mr. **Vogel**. Mr. Applegate, we have experienced some decline in the timeliness of handling many of the benefit claims. I'd like to note that there has been no decline in the quality as we measure the quality of those adjudicative actions. Indeed in some of the program areas—education and insurance—we have actually improved in timeliness.

We'll endeavor to do what we can to improve timeliness in compensation and pension claims adjudication activities. We are going to continue to use better information systems. Over a number of years we have reduced staffing and I believe the slight decline in timeliness is a tribute to the managers of our regional offices and the dedication of our employees.

The short answer is that we'll endeavor to do what we can to provide the very best service.

Mr. APPLEGATE. Well, John, I notice that is nearly a 25-percent decrease since 1982, which is pretty sizable.

Mr. VOGEL. Yes, it is sir. Together with the Chief Medical Director, we're endeavoring to shorten the amount of time it takes to get evidence—compensation and pension exams from our medical centers—and to get better and more timely records from the military service departments. If those things are successful, as we believe they will be, we'll be able to cut into that timeliness delay, even given some decline in the compensation and pension staffing levels.

Mr. APPLEGATE. Let me just ask one real quick one then, and I hope that as time goes on the department will take a look and not recommend any further cuts in the DVB because it continues to deteriorate, at least in my estimation, in timeliness and overall quality.

I note the existence of a deficiency of $479 million in 1988 for the compensation appropriation due in part to the recent 4.2 COLA in compensation DIC rates. Is it your intention to seek this additional amount in a supplemental and when will you be making the request?

Mr. VOGEL. We expect to have the supplemental request up in short order, sir, to provide for the funding for the COLA increase which was effective December 1.

Mr. APPLEGATE. Within the next 30 days?

Mr. VOGEL. I believe it will be sooner than that, sir. I'm not sure.

Mr. DEWIRE. We do not have a firm date on that, sir. It has been submitted to the Office of Management and Budget. It is considered as a priority consideration, but it has not gone completely through the system.

Mr. APPLEGATE. Thank you very much for answering those questions. I may have some others that I will submit to you.

[See p. 514.]

The CHAIRMAN. General Turnage, would you introduce the other witnesses with you for the record?

Administrator TURNAGE. Thank you sir, I will do that. Mr. Wil Ebel, Chief Memorial Affairs Director; Mr. Don Ivers, General Counsel; Mr. Tom Harvey, Deputy Administrator; Dr. John Gronvall, Chief Medical Director; and Mr. John Vogel, Chief Benefits Director.

The CHAIRMAN. Jerry Solomon?

Mr. SOLOMON. Concerning the foreclosure problem, we have been told that a 1988 supplemental appropriation request in excess of $500 million would soon be made to take care of payments to lenders in the loan guarantee program. Is that so? Give us a little background on the problem that exists there, General, if you would.

Mr. VOGEL. We're experiencing a higher level of claims payments as a result of foreclosures and subsequent payment of claims. There will be a request for a supplemental appropriation to replenish the loan guaranty revolving fund. We will continue to do what we have done to market properties. Last year we sold more properties than we have in the life of that program since World War II. We will pursue the sale of loans without recourse. We have secured a financial advisor to assist in marketing those loans. The loan guaranty funding fee also brings in revenue. Finally, we will endeavor to continue to dispose of the property inventories, which are highest in the energy belt, through creative marketing of those properties.

Administrator TURNAGE. Mr. Solomon, may I make an additional comment with regard to that issue? I know how intensely interested you are in it and the concerns that you expressed about it to me. If you will put it in perspective, however, you will note that you don't hear this issue discussed in most areas of the country. To put it into proper perspective, over 25 percent of the homes that are now excess in our system—that have been foreclosed—are in one city, in the Houston region. Not only do we have that problem there, but all of the other agencies that have similar programs have the same problem there. That means the whole market has been depressed and it's very difficult to create a climate in which we can dispose of those homes. So the fact is, the energy-related crisis has been the prime problem associated with the specific issue discussed.

Mr. SOLOMON. Thank you, General. Concerning the AIDS problem that this country, the military, and our veterans are faced with, the President's commission asked for $2 billion to help deal with this problem—research, etc. The President's budget came up with $1.3 billion. As I understand it, none of that money has been allocated to the greatest medical delivery system in the world, the VA facilities. Sonny Montgomery and I will be approaching Jamie Whitten, who is a man of some clout, when that $1.3 billion has to be discussed in the Appropriations Committee. It's up to the chairman to allocate what subcommittees will have jurisdiction over that $1.3 billion. Rather than get into a conversation with you now, I think we need to get together with your staff to discuss just how much of that money the VA will need in order for us to really get involved and get our research people involved because it is such a serious matter. I won't ask the question now, but I would like to get together with your people a little bit later to discuss that so we don't let it go by the boards and we make sure the VA will be able to handle it.

Administrator TURNAGE. We would welcome that opportunity, sir.

Mr. SOLOMON. Thank you. Mr. Chairman, I have other questions, but will submit them in writing.

The CHAIRMAN. Without objection your other questions will be submitted and we would hope that the Administrator will answer those questions.

[See. p. 325.]

The **Chairman**. Jerry, I'll have a letter today for you and me to sign to send to the chairman of the Appropriations Committee. What they do over there, they have 13 subcommittees of the Appropriations Committee, and they'll allocate the total funding. It's done by Mr. Whitten and several others of the full Appropriations Committee. They'll allocate a certain amount of money to the HUD and Independent Agencies Subcommittee. We hope in the allocation that Mr. Whitten would take part of this AIDS money and allocate it over to HUD the Independent Agencies Subcommittee for the Veterans' Administration. As we've said before, we have the patients and the research on AIDS, and certainly we are entitled to some of that funding. So we are on top of the situation and we hope we do get some of that funding.

We're going by the way the Members came into the room and Roy Rowland, you're next.

Dr. **Rowland** of Georgia. Thank you very much, Mr. Chairman.

General Turnage and Dr. Gronvall, may I commend you on what you do. You do an outstanding job under difficult circumstances. So don't take what I say personally because I don't mean it that way at all. But I'm very disturbed by the fact that discretionary programs, while there was an agreement at the summit that there be a 2-percent increase, actually the VA is staying at that 2 percent while there were some other areas that were increased, and I'm very concerned about that. When you realize that the medical consumer price index increased about 7 or 8 percent, you can see what that's doing to providing medical care in the VA system. I certainly hope that there will be some way that we can get some increase in the amount of money that you have to deal with because it's going to greatly impair some of the programs in medical care that the VA has.

I want to commend Sonny Montgomery and Jerry Solomon for the efforts that they will be making in trying to get more money for AIDS research. I've had the opportunity to go to San Francisco to see what's taking place there in research between the University of California Medical School and the VA; Palo Alto and Stanford. And I've been to New York and seen what's taking place at Bellevue—the relationship with the VA there. There is a great deal of research going on; there's some original research that's been done on AIDS and it disturbs me a great deal to see that we don't have an increase in the amount of money for AIDS research. As has already been stated, there is sufficient population there—the VA has more than 2,000 AIDS patients at this time. It is a wonderful place to be doing research on AIDS, if you can it wonderful. I can't think of any place offhand where we should put more effort on AIDS research than in the Veterans' Administration. I think, in fact, they do as good or better job than the National Institutes of Health in this area because they have that population.

I'm concerned about the cut in beds that is taking place, the reduction in personnel, the increased workloads. I'm especially concerned about what's going to be taking place in the hospital in Atlanta. We started out wanting to have an increase in beds there. We requested up to 692; they currently have 604. The VA reduced that to 623 and when OMB got through with it, it was 506 beds, 98 fewer beds than they have now. That's unbelievable. You have to realize that there is an increase in outpatient visits there, with the aging veterans population. That is an outstanding facility. There's a problem about parking there that is very difficult.

I know you made some comments about Atlanta a few minutes ago, but I want you to revisit that if you will because I think that is extremely important. That's a population center there and it's extremely important that every effort be made to increase the number of beds as was originally requested.

I'm interested to know what the patient-staff ratio in the VA is compared to the private sector. It seems that we are putting an increased burden on the professional people who are working in the VA even though there is a reduction in the number of beds. You can say that's offset to an extent by an increase in long-term care beds, but really you're comparing two different things. What is the patient-staff ratio?

Dr. **Gronvall**. Dr. Rowland, I can't give you a comparison that's truly valid between the patient to staff ratio in the VA and university hospitals or the private sector. The principal reason for that, unfortunately, is the lack of a comparable data base from private sector hospitals and the inability to ensure that we would be comparing like patients. In other words, we can't make an apples-to-apples comparison. We do have some suggestive information about staffing ratios, but I think the data are soft because of the unavailability of truly comparable data in the private sector.

On an anecdotal base, a number of our hospitals make comparisons, for example, with a university hospital or a good community hospital that's in the immediate area and believe that they can present convincing evidence that we are shorter of staff in relation to the patient load than would be a comparable university or other first-rate community hospital.

Dr. **Rowland** of Georgia. I know, Dr. Gronvall, you have to be concerned about the possible impairment of the quality of care if we continue to have a decrease in professional personnel vis a vis the patient load. So I think that's something that we really need to work on and to be sure that doesn't happen.

Mr. Chairman, may I say to you and Jerry Solomon, please let me know any way that I can be of assistance in trying to get some of this money in this budget for AIDS into the Veterans' Administration. I want to make some strong arguments for that because I believe that is an excellent place for that money to be. Thank you very much.

The **Chairman**. We'll see what the reaction is to the letter we've written to the chairman. Certainly it would help us to talk to other Members of the Appropriations Committee. It's only fair—we're not asking for any additional money, we're just asking to earmark part of the $1.3 billion to go to the people who are doing a lot of the research on AIDS and have the patients

Dr. **Rowland** of Georgia. Absolutely.

Mr. **Solomon**. Mr. Chairman, may I be recognized for one minute? I just want to point out that I think about 6 percent of the total AIDS cases are involved in our Veterans' Administration facility. That is significant. I think that points out the need for the money.

Dr. **Rowland** of Georgia. More than 2,100, as I understand it, are AIDS patients in the VA system.

The **Chairman**. All those that come out of the military—I've said this before—that develop AIDS come into our system at veterans. And they come in with honorable discharges and they're part of our system now. And we're going to take care of them. We should be given part of these funds for treatment and for research.

Mr. Hammerschmidt?

Mr. **Hammerschmidt**. Thank you, Mr. Chairman.

General Turnage, I wonder how much was requested in your budget submission to the Office of Management and Budget. Could you give us those figures?

Administrator **Turnage**. We could provide that for you now.

Mr. **Hammerschmidt**. In the interest of time, and I have a Public Works Committee that's waiting to start and I will have to go over there, would you please submit those for the record? Also, break it down as to budgetary counts and department for us for our records?

Administrator **Turnage**. We will do so.

The **Chairman**. Would the gentleman yield? What figures did you ask for?

Mr. **Hammerschmidt**. I asked for their budget submission to OMB.

The **Chairman**. Well, why can't we get that?

Mr. **Hammerschmidt**. They're going to supply that for the record.

Administrator **Turnage**. We could give it to you now, but it was suggested he had a time problem, sir.

Mr. **Hammerschmidt**. If you'd like for it to be presented here verbally, let them do that.

The **Chairman**. Don't you think that's important to see what—it's your question.

Mr. **Hammerschmidt**. Well, I do think it's important. It's information that the committee needs and the Appropriations Committee always demands. So I don't know why we shouldn't have it in our records. If you want to go ahead, I'm going to leave for the response just because of my time demands. But so the committee can have the value of it if you want to, Mr. Chairman, let them respond.

The **Chairman** All right. Could you respond, General Turnage?

Administrator **Turnage**. Mr. Chairman, at the appropriation level, the request to OMB was $28.202 billion. That does not include proposed legislation.

The **Chairman**. Would you say that again, please?

Administrator **Turnage**. The OMB request was $28.202 billion.

The **Chairman**. Do you have the breakdown by budgetary accounts, the large accounts?

Administrator **Turnage**. Yes, I can give it to you. I'm sure you're interested in medical care. We were asking for $10.556 billion. The total requested for all the benefits programs was $15.718 billion.

For construction, we asked for $811,104,000. In general operating expenses, our request was a total of $795 million.

The **Chairman**. How much would proposed legislation cost?

Administrator Turnage. Our request initially was for $900 million. Through negotiations, our total request was for $1.475 billion——

The Chairman. $1.475 billion?

Administrator Turnage [Continuing]. Which does include credit reform.

The Chairman. Thank you. We would still appreciate a more comprehensive response for the record.

Administrator Turnage. Thank you very much, Mr. Chairman.

The Chairman. Thank you, John Paul. That's helpful that we can kind of work from those figures also.

[Subsequently, the Veterans' Administration provided the following information for the record:]

FISCAL YEAR 1989 OMB BUDGET SUBMISSION AS AMENDED

[Dollars in Thousands]

Federal Funds:	
Benefit Programs:	$10,749,100
Pensions	3,865,200
Burial Benefits	144,800
Subtotal C&P	14,759,100
Readjustment Benefits	597,600
Veterans Insurance and Indemnities	9,220
Veterans Job's Training	0
Loan Guaranty	352,800
Subtotal	15,718,720
Medical Programs:	
Medical Care	10,556,638
Medical and Prosthetic	216,115
MAMOE	51,794
Grants for State Homes	42,000
Grants to Philippines	500
Subtotal	10,867,047
Construction Programs:	
Construction, Major	632,065
Construction, Minor	148,839
Parking Garage	30,200
Subtotal	811,104
General Operating Expenses	795,278
Grants to State Cemeteries	10,000
Total, GOE and Miscellaneous	805,278
TOTAL, APPROPRIATION ADJUSTED	28,202,149
Proposed Legislation:	
Compensation	360,900
Burial Benefits	(39,850)
Veterans Insurance and Indemnities	4,250
Credit Reform:	
Loan Guaranty	(155,800)
Loan Guaranty Subsidies	709,900
Direct Loan Subsidies	196
Federal Funds:	
Vocational Rehabilitation Subsidies	100
Medical Care	23,999
GOE—Administrator	4
Subtotal, Proposed Legislation	903,699

Propriety Receipts:	
GI Bill	(210,000)
3rd Party Reimbursements	(138,000)
Subtotal	(348,000)
Total Federal Funds	28,757,848
Trust Funds (Gross)	1,612,615
Proprietary Receipts	(443,630)
Total (Net)	1,168,985
Intragovernmental Transactions	(133,496)
Total, Veterans' Administration	$29,793,337

The Chairman. Charlie Stenholm of Texas?

Mr. Stenholm. Thank you, Mr. Chairman.

General Turnage, gentlemen, welcome to the committee.

First, Mr. Chairman, the problems we're having with VA housing in Houston, as we well know, are present throughout the entire economy of Texas. Not surprisingly, it's beginning to show up in increased veterans' health care needs and utilization of the VA hospitals within Texas. I know in my own district that we're now at over 75 percent of capacity. It wasn't too long ago that some were suggesting that this hospital should be closed—it was several years ago—because of lack of utilization. It's up 20 percent in the last year alone. And again, it's not just our veterans. We have a tremendous crisis in rural hospital care. We're losing hospitals now in very many of our small communities.

You said in your own statement that we're seeing new highs of 1.2 million inpatients and 23 million outpatients. We have had a very successful outreach program from the Big Spring VA Medical Center. We have understood the pressures of budget, the demands of serving more people with less money. Our VA personnel have done an excellent job and we're now serving some 50 additional veterans biweekly by bringing the service to Dyess Air Force Base in Abilene, Texas, thanks to the tremendous cooperation and the urging and support of Chairman Montgomery.

We're looking at Goodfellow Air Force Base in San Angelo, Texas, outside of my district, to establish another outreach center. We're also looking at Midland/Odessa in the belief that we can bring to our veterans the health care that they need and utilize at a much more efficient rate from a financial standpoint. You've been very helpful to us in recognizing the need to take another look at the curtailment of surgical care at Big Spring because of the distances involved, and the increased utilization. All of this points to my question.

It seems inconsistent to request fewer personnel and fewer facilities, etc., at a time when the demands are growing. Now maybe it's just that Texas is an unusual circumstance, but I don't sense that in listening to my colleagues from other areas. And I don't sense it from your very own statement. Is there an inconsistency in this, and if not, why not?

Administrator Turnage. I don't think there's an inconsistency, sir, but for further details I would like to go to the expert, Dr. Gronvall. But from a lay point of view, we find that a number of things are happening in medical care which have an impact on this. For example, in the number of inpatients, the length of stay is being reduced. That in effect turns out to be a productivity factor. The number of people that are applying for care are actually being reduced overall, except that individuals are coming more often, for example in the outpatient area. Moreover, there is a thrust toward outpatient care, ambulatory care, as opposed to acute care. These all have an effect on the system, to include different modalities of care that we have initiated in the system, particularly for long-term care, for respite care, and for hospital-based home care.

Having said that, I think the system itself is becoming more productive because of some of the things that we have done. For example, you take Magnetic Resonance Imaging (MRI) now, through the use of this new equipment they can determine whether or not an individual must have surgery as opposed to having exploratory surgery. Think in terms of the numbers of nurses' and professionals' time that saves and translate that into other similar medical technology advances. I think we're doing more and we're doing it better and we're doing it more productively.

Once again, I would like to have an additional comment from Dr. Gronvall on that.

Dr. **Gronvall**. General Turnage has summarized the high points of that very well. I thank you for the complimentary comments about the way in which our expansion of outpatient care and the development of new outpatient clinics and satellite clinics has brought health care to veterans, particularly those in rural areas who may be distant from a major hospital. We have been able to achieve significant improvements in the number of patients that we treat as a result of those changes in the length of stay in our hospitals and through expansion in our outpatient care programs.

You asked your question in the context of the 1989 request that is before you. As was said in the opening summary, this overall budget was controlled by the budget summit agreement. So the job we had in putting together this budget was to start within that agreement and then make the best possible adjustments as to how we could request support for staff, equipment and programs to focus on our plan to meet the health care needs of eligible veterans that would come to us. So the whole budget started with a built-in control and then the various adjustments that you talked about in staffing and funding are a derivative of attempting to live within that kind of an overall request.

Administrator **Turnage**. Sir, the nature of this question deserves further comment, if you will allow. The fact is, in the entire system right now, we have better statistics on patient care and eligibility than we ever did before. This was a result of the means test that was passed before I came to this job. The fact is, the effective date of that was July 1, 1986. Since then we have better statistics than ever before. We know who we serve, what their eligibility status is, and the rest of it. The key to the whole thing here is that there is not one individual who has been named to me who is not getting the care to which he is entitled, based on the eligibility standards that the Congress has passed.

Mr. **Stenholm**. Mr. Chairman, my time has expired. Let me just conclude by saying that I think the answer is very clear, if we have increasing needs we will need additional personnel. I readily acknowledge that in the VAMC that I'm most familiar with in my district the efficiency levels of delivering care have greatly improved over the last 24 months. And that's good. However, if we continue to push the outreach centers, we're going to need more personnel. We're working our folks to their full limit. And that's the concern that we have, budget restraints notwithstanding. We have some potential problems, and the chairman addressed that in his original statement.

The CHAIRMAN. Thank you. We'll move on, but to follow up on Mr. Stenholm, Dr. Gronvall, the budget has a recommendation that 1,800 personnel be cut from medical care. Also, in your own estimates the health care for veterans coming into the outpatient clinics and going into the hospitals will increase in 1989. How can you give proper medical care if you're going to reduce your medical personnel around the country by 1,800?

Dr. GRONVALL. Let me if I may expand a little bit on the short answer that I just gave to Mr. Stenholm, Mr. Chairman. Each year in recent years, as you recognized in your opening statement, we happily have been able to actually exceed the projections that we made of the number of patients we would be able to treat at the given staffing and support level that was actually adopted in our appropriation. As we look forward we believe that it is reasonable to project that increased productivity can continue. I think the question as to how long that productivity will continue is a different issue. But in any event, we do anticipate that in the next several years the length of stay will continue to decrease. That, then, allows us to focus more effort into expanding outpatient care. And you're quite right, our budget projects a significant expansion in the number of outpatient visits. That whole trend is not unique to the VA, or course. That's going on in the private sector. So the kind of medicine that we're practicing and the way we're taking care of veterans is consistent with the best medical practice going on in communities.

I made the comment that in developing the 1989 budget we'd made our projections for what we thought would be the expanded demand from eligible veterans. Then we worked within the overall budget summit agreement to try to make the best possible adjustments. As we looked forward in our staffing, to be specific about staffing, we start with the current year figure of 194,140 FTEE in the department. The 1989 budget projects an increase of some 1,882 staff for facility activations. That will be the staff for new facilities that are coming on-line during 1989. At the same time, our budget contains a 1 percent productivity adjustment. That represents a government-wide figure of 1 percent productivity that has been a feature of several of our recent budget requests. So that results in a reduction of some 1,940 FTEE.

The CHAIRMAN. That's what we call up here "smoke and mirrors."

Dr. GRONVALL. That is, as I say, a government-wide objective that gets put into the budget on that kind of a basis.

The CHAIRMAN. Dr. Gronvall, I appreciate your trying to defend your position. But you haven't requested any new technical equipment to do the job you're talking about. Your equipment is getting old. You cut out the request for additional computers. I just don't see how you can do all of this when you're not making requests that you need to do to improve the services.

Mr. SOLOMON. Would the chairman yield at that point?

The CHAIRMAN. Yes.

Mr. SOLOMON. I would just like to add to what the chairman is saying because 1 percent productivity requirements just don't work. They don't work in the private sector; they don't work in the governmental sector. When you put this into effect it just hurts the whole system. I want you to abandon it. I want you to tell the administration—tell OMB—that this doesn't work when you're delivering medical care to people. If you're cutting in the private sector—if you're going to cut sales, and you're going to cut productivity and the assembly lines—where is there any sense of management that way? You can't do it, I can't do it. Throw it out. Come back here with a budget next year with no more 1 percent cuts in it.

The CHAIRMAN. Thank you. Bob Stump of Arizona? Let the record show that he was present. Claude Harris of Alabama?

Mr. HARRIS. Thank you, Mr. Chairman. General Turnage, the veterans' job training program—how would you rate that as far as being successful or unsuccessful?

Administrator TURNAGE. I think it's been a success overall.

Mr. HARRIS. Do I understand in this budget that you're recommending no funds for this program—the Veterans' Job Training Act?

Administrator TURNAGE. As a matter of fact, we have money now that has not been spent or used simply because of lack of applicants. As a result, there has been a point reached of saturation in the system where the people who are taking advantage of it are far less than the assets that have been made available. So we didn't anticipate a continuing need for it, Mr. Harris.

Mr. HARRIS. As I understand it, the act is set to expire June 30, 1988. Is that right?

Administrator TURNAGE. Yes sir, that's correct.

Mr. HARRIS. And no request to extend it?

Administrator TURNAGE. Pardon me, Mr. Harris. That's the last date upon which veterans can apply. They can continue to train for a period of time after that, but they have to make application to be eligible. Then they can train beyond that point in time.

Mr. HARRIS. In the housing program, I noticed that you're recommending or suggesting a Federal credit reform bill that would take the authority of the program away from the VA into the Treasury. My question to you, General, is do you think that the Treasury would have better results in preventing foreclosure of VA loans?

Mr. VOGEL. Mr. Harris, that really is the identification up front of the grant-equivalent subsidy of Federal credit programs. Veterans won't be affected by the establishment of that revolving fund in Treasury at all. We have managed the revolving fund over the years. Unfortunately it is not now solvent. But that is not unique to the Veterans' Administration. That central revolving fund to be established in Treasury would be apropos to other Federal guarantors and lenders, such as Farmers' Home Administration. The greatest feature of the guarantee program is the ability for the VA to guarantee a loan with no money down. This will take into account the default and claims rates on our program as well as others that are either similar or analogous to it.

Mr. **Harris.** But you're turning over the operation of the program to the Treasury, aren't you?

Mr. **Vogel.** We'll continue to operate the program, Mr. Harris, as we have. All Treasury will be is a depository for the subsidy amount identified in the program. So when claims are made, we'll draw against that revolving fund to be maintained in Treasury. It wouldn't have any programmatic impact on how the program is administered or on the veterans who seek to use that valuable benefit.

Mr. **Harris.** All right, sir. On the medical side and research in particular, General, I notice that the budget reflects a decrease of $1.5 million in rehabilitation research authority. I'd for you to explain that decrease.

Dr. **Gronvall.** Mr. Harris, we should submit a more detailed comment. This budget goes from year to year and in the 1988 actual appropriation there was an earmarked significant increase for rehabilitation research. As we went from the 1988 actual appropriation into a request for 1989 and faced the requirement again to control the total size of the request consistent with the budget summit agreement, those adjustments in individual components of the research appropriation request were made. We could supply additional specific figures on that and a comment about it.

Mr. **Harris.** All right, sir. I would appreciate that for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

The President's Budget for FY 88 for Rehabilitation Research and Development (Rehab R&D) was $17,534,000. The Congress added an additional one time appropriation of $3 million to the FY 88 request for continuing research in the following Rehab R&D priority areas:

Prosthetics/Amputation/Orthotics—expansion of the CAD/CAM (Computer Aided Design/Computer Aided Manufacture) projects for lower and upper extremity amputees, and proposed evaluations of completed research in this area.

Spinal Cord Injury—expansion of the FES (Functional Electrical Stimulation) projects not only for paralyzed walking but for other areas such as bowel and bladder dysfunction, respiratory dependence, and impotency.

Although the President's Budget for Rehab R&D in FY '89 ($18,994,000) is a reduction to the FY 88 appropriation, it in fact represents an increase of $1,460,000 to the FY 88 request.

Mr. **Harris.** Let me ask you this. In talking about the employment and manpower, what is the status of the search for a director of health systems and development service? I understand that position has been unfilled for at least two years.

Dr. **Gronvall.** I want to be sure that I'm responding to the right position. We are searching for a person to head our health services research program——

Mr. **Harris.** And also an assistant chief medical director.

Dr. **Gronvall.** Perhaps it's better for me to be sure that I'd have from you the exact positions and then I could supply for the record specific details about where we stand on the search. There are several positions that we have been searching for including a couple, as you suggest, that have been vacant for some time—each for very different reasons. But I would be pleased to have the specific positions you're interested in and then give you a report. We can do that quite promptly as to the exact status of where we are in the search.

Mr. HARRIS. All right, sir. Particularly the one on health systems and development service.

[Subsequently, the Veterans' Administration furnished the following information:]

A national search for the Director of HSR&D was begun in August 1987. A search committee, chaired by Dr. John Kendall, Dean of the University of Oregon School of Medicine, identified three finalists for this job. Unfortunately, none of these candidates accepted the position as offered. While we are interviewing several candidates who have been identified recently, we plan to reopen the formal search in March 1988.

The CHAIRMAN. Thank you, Claude.

Mr. HARRIS. Thank you, General.

Administrator TURNAGE. Thank you.

The CHAIRMAN. Tom Ridge of Pennsylvania was here. Let the record show that Tom had to leave.

Mrs. Patterson of South Carolina?

Mrs. PATTERSON. Thank you, Mr. Chairman.

General, it's good to have you and others with us this morning. Let me start off by telling you that one reason I asked to be on this committee is because one out of every nine people living in my district is a veteran. So I think I have a very strong reason for being here and I think what goes on in my district offices reflects that.

Let me tell you a little bit about my history. Less than 20 years ago I worked in the congressman's office in that district and we very rarely had a visit from a veteran asking for assistance. I would say maybe once a week. Now, between 30 and 40 percent of the people who come into my office are asking for assistance with veterans' benefits. I guess what that says to me is that they are not able to receive the information, the assistance that they need going directly to the Veterans' Administration, mainly the veterans' hospital. And they have to turn to my office. I think there's been a real change and I appreciate that they use my office, but that does bring up a question to me of why must they turn to their Member of Congress rather than going straight to the facility.

In your statement, I was pleased to see two things. One, because of my interest in the nursing profession, I was pleased to see that you are going to have the tuition reimbursement for nurses to get the degree-related courses they need. I think that's an excellent incentive for us to keep our nurses within the Veterans' Administration programs.

I'm also very interested in the State Home Care Program because I think it's worked well in South Carolina. We would like to see it grow. In your statement and in your budget there is the reflection that you are going to increase that per diem rate. I believe we had legislation last year that encouraged that, and I'm glad to see that you do have that in your budget this year.

But let me ask you a couple of questions. I think many Members have already asked this—our distinguished chairman has. It really does concern me that it looks like we're going to have fewer staff to take care of more people. I'm wondering if that does mean cutbacks in beds within my State in particular where there is such a need for beds for our veterans. I'd like to get some more detail from you on that.

[Subsequently, the Veterans' Administration furnished the following information:]

The Veterans' Administration through such management techniques as the Resource Allocation Methodology (RAM) makes a determination of what resources are required to meet the veterans' needs (bed, staffing, etc.). As the veteran population demand increases in a given area, likewise available resources are shifted and increased accordingly.

There are no plans at this time to decrease the beds at VA medical centers in South Carolina.

But because of time, let me ask one quick question. Could you give me a list of how many projects and what amounts we're funding for research, especially for programs related to AIDS, aging, alcoholism and other special emphasis programs? I know that there is some mention of this in the budget on certain pages. But I would like to know how many projects and for what amounts this research is being done.

Dr. GRONVALL. Mrs. Patterson, we'd be pleased to supply to you in detail the number of projects and the amount of support for each of those projects under each of those headings.

[See p. 133.]

Mrs. PATTERSON. I'm extremely interested in, as some of the other Members have stated, the research that has been done and will continue to be done, I hope, in the area of AIDS. I would like to know the exact amounts and the research. I understand——

The CHAIRMAN. Would the gentlelady yield?

You know, if information is submitted for the record, then the other Members don't get advantage of it. Could you give us any figures now that would help us some?

Dr. GRONVALL. AIDS research is perhaps of most interest and we have been rapidly attempting to increase the amount of support that we're providing for AIDS. This year we are up to a level of some $3 million to $4 million of VA support. Our investigators are attracting approximately that much in competitive grants from other organizations. During this year we have identified three of our medical centers for funding specifically as AIDS research centers, namely Baltimore, Maryland; Durham, North Carolina; and San Diego, California. We'll provide additional funds and research staff to those centers as a stimulus to expand their AIDS research programs.

This does not mean that all of the AIDS research in the VA is going to be done at those three centers, but those will be three particular centers of excellence where we'll be significantly increasing our support for AIDS research. We're projecting that in the next couple of years we will more than double the number of AIDS research projects supported through our hospital system. We'll follow up, though, with precise figures and the details of those three AIDS research centers and the number of AIDS project grants we're now supporting.

[Subsequently, the Veterans' Administration furnished the following information:]

The list below provides the VA medical center location and annual funding for the three VA HIV Research Centers to be funded April 1, 1988:

San Diego	$245,620
Durham	$245,000
Baltimore	$252,000

Mrs. PATTERSON. I think you alluded to this, but I believe there are some joint projects with DOD and Veterans' Administration for research in certain areas. I believe that we put that in the budget last year. Are those research projects continuing, those joint efforts?

Dr. GRONVALL. Yes, in 1987 and again in 1988, through the appropriations language, there was a transfer of funds from the Department of Defense to the VA's research budget. This year we're receiving $15 million from DOD for that purpose. Our staff work very closely with the staff at the Department of Defense so that we identify research projects that support the medical mission of both the VA and the Department of Defense. We funded a number of joint projects where we have both VA and DOD researchers collaborating on individual projects. This has been a very successful program of strong collaboration between our two organizations.

Mrs. PATTERSON. My time is up, but I would be interested in seeing a list of those projects and see exactly where they are going—the cooperative programs.

[The information appears on p. 150.]

The CHAIRMAN. I believe that idea came from the Armed Services Committee. We've been able to transfer some of that money from the Department of Defense research of health over to the VA research health care. We're doing a lot of research on the military—I believe you'll submit that for the record. You've been invited on March 9 to the retirement reception of Tony Batista of the Armed Services Committee staff. Tony had a lot to do with us having some of those funds transferred. I assume, Dr. Gronvall, it's been a great help to you.

Dr. GRONVALL. Absolutely.

The CHAIRMAN. How many projects do you do for the military?

Dr. GRONVALL. Dr. Greene is here and would have to give me that overall figure.

The CHAIRMAN. This is important because it's extra money we've been able to pick up.

Dr. GRONVALL. Dr. Greene, if you could respond to that question specifically.

Dr. GREENE. There are 36 projects of this joint venture program where VA and DOD investigators work together. Those have just been started. In addition, there are 250 projects in the VA that are of special interest both to VA and DOD medical care people that are supported by these funds.

The CHAIRMAN. Dr. Greene, I hope you wouldn't hold back on funds thinking you're going to get this $15 or $25 million from the military. Each year it's a hope and a prayer. We've been able to do it for two years in a row, but I would hope that you wouldn't say we know we're going to get this for research for health care in the VA, so therefore we'll deduct that much, because that's not locked in at all.

Dr. GREENE. I understand.

The CHAIRMAN. As long as you understand it.

Administrator **Turnage**. Mr. Chairman, we have a couple of points for Mrs. Patterson in response to her question. We now have an additional State home that has been proposed for your State, and our funds are earmarked for it. We're simply awaiting the additional administrative requirements from the State in order to meet the prerequisites to completing that.

Mrs. **Patterson**. I appreciate that. It's in my area, not in my district, but it is closer to my area.

Administrator **Turnage**. The second point is that in the budget there is a 23-percent increase in the per diem rates for the State homes starting in 1989. So we're responsive to that.

The third point relates to the nurse program. Dr. Gronvall has been very active and energetic in trying to help solve that. It's not a VA problem, it's a national problem. We now have this program in which the nurses will be training at our expense. Then they'll have a payback period so that service will still be rendered to the VA. So we think we're making progress on that problem. Hopefully, it will be fast enough, but we're working on it very diligently.

The **Chairman**. Thank you.

Joe Kennedy of Massachusetts?

Mr. **Kennedy**. Thank you, Mr. Chairman. First of all, I have an opening statement that I would like to submit for the record.

[See p. 154.]

The **Chairman**. Without objection, your prepared statement will appear in the record.

Mr. **Kennedy**. Thank you.

General Turnage, Dr. Gronvall and the rest you fellows, it's nice to see you again. My first question really stems from a question that was asked earlier, I think by Mr. Hammerschmidt, in which he asked you for your own budget submission. In comparing that to the President's budget, it seems that he has requested $30 billion, $98 million, and you've requested somewhat less. Can you tell me what the difference is?

Mr. **Hoffman**. Mr. Kennedy, I did not include the trust funds which make up the difference. These are the insurance funds that go to make the total budget authority. I provided the figures that represented the appropriation level and then was asked to provide the figures for the legislative program, and I did not include the difference which is for such programs as the insurance program and some trust funds.

The **Chairman**. Would the gentleman yield?

What's the difference between the authorization and appropriation as far as the figures are concerned, and why do you do it in appropriations and not——

Mr. **Hoffman**. Mr. Chairman, the budget submission that we send forward to the Appropriations Committee addresses only the appropriations level but we do have to break it down into three components: appropriations under existing legislation, proposed legislation, and then the trust funds and any other funds that fall in that third category of budget authority. This represents the Agency's budget wuthority total..

Mr. **Kennedy**. That leads to a general kind of theme that has been reiterated this morning. It says at the bottom—there's a little footnote here from the 1988 budget. It says, "For comparison purpose, CBO projects the CPI to increase by 4.5 percent over a comparable period, while the medical CPI is projected to increase by over 7 percent." And yet last year's budget was $29.161 billion and this year's is $30.98 billion, right? Well that sure doesn't reflect the 7-percent increase or anything close to even a 4.5-percent increase.

Mr. HOFFMAN. Well there are some accounts in here that only have a 3.9-percent increase.

Mr. KENNEDY. Yes, but there's some that are less than that sir. obviously.

Mr. HOFFMAN. And of course we're reflecting a reduction in workloads.

Mr. KENNEDY. Right, which leads me to a question. I've met with people up in Boston, for instance, and they have had some very significant problems with the Department of Veterans' Benefits and erratic hiring and firing of individuals who work in that department. As I understand it, even in this budget you are between 400 and 450 employees above budget today. So if you will have to reduce those reflect your new budget, I don't see how you're possibly going to continue to provide services to people.

Mr. HOFFMAN. I'll have to defer to Mr. Vogel.

Mr. KENNEDY. Thank you. It's not enough, obviously, but anyway——

Mr. VOGEL. Mr. Kennedy, the staffing right now in the Department of Veterans' Benefits for this year is essentially in a frozen posture. Right now we are bringing the employment level down. We began the year at a rather high level to try to continue to maintain adequate service.

Mr. KENNEDY. You don't have to go on to explain to me how you're going to do this by making up in efficiencies and all the rest of it. I can't believe anybody sitting at that table believes it for a second. You don't really believe you're going to be providing the same level of services after cutting 450 employees. And there are a hell of a lot more employees—that's just out of one category. So, it does seem that there's just a crazy thing going on in here, when you have a committee that has both Republicans and Democrats in unison on the fact that we need more funds for the VA. The one organization that's not up to speed in going out and requesting those funds is the VA itself. It just seems that if you have the collaboration of both the Democrats and Republicans on this issue, why are you the people that aren't coming in with the right amount of funds? General?

Administrator **TURNAGE.** We think we've come in with the right amount of funds, Mr. Kennedy.

Mr. KENNEDY. You don't really believe that. How can you say that——

Administrator **TURNAGE.**We hear all the issues about the fact that we are not providing adequate medical care——

Mr. KENNEDY. Sir, let me just ask you—the homeless issue alone—it's an issue that I hear all the time in the Housing Committee. We hear veterans working two jobs a day and they can't pay for a home. You're going to take $15.5 million out of that account for ongoing homeless projects within the VA and you're going to allow those projects to terminate. What are you going to do with the homeless veterans?

Administrator **Turnage**. We are not allowing any homeless projects to terminate, Mr. Kennedy.

Mr. **Kennedy**. Well sir, that's certainly not the information the committee is informing me of.

Administrator **Turnage**. We have an ongoing program for the homeless.

Mr. **Kennedy**. You have an ongoing program that's being shut down, as I understand it. I mean, maybe I have my facts wrong here but that's—is anybody of the committee——

The **Chairman**. There's no money in there for the homeless, the gentleman's right.

Mr. **Kennedy**. What I'm trying to suggest to you, sir, is that you have some allies up here and you ought to use them. If you have to take on your administration, that's fine. There's other fellows up here on the Republican side that have to do it every day. I'm just saying it seems to me you ought to get up to speed with it. If $30 billion is not enough to serve our veterans, then come in with the right amount of money and let us haggle over the right amounts of money that should go into these accounts. But don't you, the administrators, have to do that? You're representing the veterans and they don't need to be sold down the river on this stuff.

Administrator **Turnage**. Mr. Kennedy, I have one primary job as Administrator of the Veterans' Administration. I am the advocate for the veterans. I make no compromise about that. We asked for the funds in order to support the veterans.

Mr. **Kennedy**. Mr. Turnage, you do make compromises about it and you know you do.

Administrator **Turnage**. We're not making compromises.

Mr. **Kennedy**. You're making compromises in this budget request.

Administrator **Turnage**. Right now, for example, across-the-board in the hospitals in this country, we have a 68-percent occupancy rate. We have some that are down in the 50 percent range. I've heard all of these horror stories about the numbers of veterans who weren't being treated and I said give me the name and the time and the place concerning these stories. I don't get any further information, sir.

Mr. **Kennedy**. Okay, we can get you some names.

The **Chairman**. I'll give you some.

Mr. **Gray**. Will the gentleman yield?

The **Chairman**. I was in Baseville, Arkansas, and we like to had a riot out there having a VA hearing—people not getting the service. I thought I might have to call in the police out there. So, I'll give you a lot of names, General Turnage.

Administrator **Turnage**. We are providing service to everyone who is eligible for service, according to your rules.

The **Chairman**. General Turnage, have you taken care of all the outpatient demands around the country?

Administrator **Turnage**. In some places we have wait times, for example,in the Sun Belt and Florida specifically. But generally, across the country, sir, we do provide service to everyone who is eligible. As Mr. Stenholm pointed out earlier, we just increased that kind of service in his district down there by 40 percent this last year.

The **Chairman**. How about VA nursing home care?

Administrator **Turnage**. VA nursing homes have a different occupancy factor than the hospitals. For example, we're running about 95-percent ouccupancy across the country in occupancy in nursing homes. We have other programs in addition to nursing homes that take care of the geriatric patients, home care patients and others.

The **Chairman**. Well, my figures are different from yours. There's a waiting list of 200 in Jackson, Mississippi to get in the VA nursing home. We're taking up the slack, we hope. We're building a State veterans' nursing home, which I hope other States would do. But as far as I can tell, there's a great shortage of nursing home bed care for veterans, whether it's in the State or whether it's in the Federal.

The **Chairman**. Mr. Rowland, from Connecticut.

Mr. **Rowland** of Connecticut. Thank you very much, Mr. Chairman. This hearing was starting to get a little boring.

Administrator **Turnage**. Not for me, sir.

Mr. **Rowland** of Connecticut. Thank you, General. I would just like to say that I think you've done a very good job over the last year. Quite frankly there are a lot of issues you've had to contend with. A lot of those have come from the Congress and a lot have come from the administration, and I think you've fared pretty well with regard to the economic times that we're facing and even the parochial problems that we've all seen in our VA's. I've seen at least from my standpoint many instances where you've all kind of gotten together and tried to beat the problem, resolve the problem, work with the veterans' groups, and work with the press which has been somewhat negative over the years. I think you've fared pretty well under the circumstances.

I'd like to ask, if I may, a parochial question and a couple of general questions. The parochial question has to do with—I think about a year or so ago you announced that the Buck Gillespie Blind Center would be transferred I believe from Massachusetts to the West Haven VA in Connecticut. It's been my opinion that the progress in getting the Blind Center off the ground has been somewhat slow. As a matter of fact, from my understanding today, there are about 130 plus veterans still on the waiting list to get into the Blind Center. In one breath I'd like to compliment you because just a week ago there was approval for the special pay incentive, and that was excellent. We need that type of adjustment; we have some real competition up in our region of the country.

But at the same time, it's now my understanding that because of the freeze they're unable to hire one, or I believe it's two, individuals for those positions. I don't know if that is true or not, but I would like to get some feedback from you or anyone of the staff, either for the record or now, if that's possible. It doesn't make much sense that in one movement we approved the special pay incentives and then we understand that because of the freeze we can't hire anybody to help run the center.

Administrator **Turnage**. Sir, I can't answer but perhaps someone here can.

Dr. **Gronvall**. Mr. Rowland, I think it would be for me to look into that matter. I don't have any of that information at my fingertips. I'm unaware of any freeze anywhere in the department, so I would assume there is a local problem that is preventing recruitment. But I believe the best thing would be for me to look into it and then we'll give you a complete status report on that. I would just say as a generalization that our Blind Center has a very high priority. That's been one of the very proud accomplishments of the VA, I think, to lead the nation in the rehabilitation effort for blind veterans. The benefits of our programs have been made available to all citizens in the country and we want to continue that leadership position. I'll be pleased to look into your concerns and do whatever is necessary to ensure that the program is running very well.

Mr. ROWLAND of Connecticut. I appreciate that, Dr. Gronvall. It's a beautiful center. I've been down there a number of times. There are good people that want to see the process work. Again, I think the progress has been a little bit slow. The waiting list is indicative of that and I'd appreciate any efforts we can make in that behalf.

Dr. GRONVALL. We appreciate your support. Thank you.

[Subsequently, the Veterans' Administration furnished the following information:]

Six FTEE were transferred to the VAMC West Haven to support the Blind Rehabilitation Service. Five of the six positions are currently filled. Due to financial difficulties, in the clinical, administrative, and engineering series, the Director temporarily delayed recruitment efforts facility-wide with the exemption of the Blind Rehabilitation Service. Two individuals are currently being recruited for the Orientation and Mobility Specialist position. The facility anticipates a response by April 8th.

Mr. ROWLAND of Connecticut. With regard to the testimony, General, you make reference to the medical care budget having something like a 2-percent increase, I believe was the number that you used. Under the best of projections this year for inflation, I think we're going to see somewhere between 4 percent and 4.5 percent. How are we going to respond to the normal inflation increase when we only have a 2-percent increase in the medical budget?

Dr. GRONVALL. Some of the earlier comments I've made respond to that. The actual inflation rate of the supplies and medical equipment that we have to buy won't be known until we're actually in the year. When we get our actual appropriation at whatever level, we look at all of the priority needs and then try to make the most intelligent judgments we can to partition our support between personnel and equipment needs. The budget, of course, contains projections based on our best current information. But the actual way we would manage that really waits for judgments that will be made during the course of the particular year.

Mr. ROWLAND of Connecticut. Thank you, John.

The CHAIRMAN. Would the gentleman yield? Talking about equipment with Dr. Gronvall, to be fair to General Turnage, I think that they do submit a budget down there to OMB that's fairly workable, then OMB shoots it down. Correct me if I say this wrong, Dr. Gronvall, but in the last five years you've asked for a certain amount of medical equipment and each time you got $100 million knocked off. Over a five-year period we show that there was $560 million in medical equipment you requested that you did not get because OMB cut you back. If that correct?

Dr. GRONVALL. I can't assert the exact correctness of that figure, but you are correct that the request that we make to OMB has been more than the final figure that's in the President's budget. That question was being asked earlier and we'll supply that information for the record, but I do have the figure for the 1989 request for you. Our request that went to OMB for equipment, both replacement and additional equipment in our hospitals, was $489 million. The President's budget request is $390 million for 1989.

The CHAIRMAN. That's really where our problem is.

[Subsequently, the Veterans' Administration furnished the following information:]

EQUIPMENT

The chart below compares the VA's budget request to OMB for replacement and additional equipment with the funding levels approved for inclusion in the President's budget for the last five years:

[Dollars in Thousands]

Fiscal Year	OMB Budget Request	President's Budget	Difference
1985	$476,774	$419,441	$-57,333
1986	599,493	424,948	-174,545
1987	613,882	471,057	-142,825
1988	477,927	363,643	-114,284
1989	489,216	390,442	-98,774
Total	$2,657,292	$2,069,531	$-587,761

Mr. ROWLAND of Connecticut. I think it's a really good point, Mr. Chairman. I would like to follow up on what we've had discussions on this morning with regard to the proposed reductions in employees. I'd like to ask for the record, Dr. Gronvall, if you can tell us approximately how many of that employee reduction is coming from the Central Office?

Dr. GRONVALL. The employee reduction that we were describing is all in the medical care account. So by definition, none of those employees would be Central Office employees. The medical care account supports people in our hospitals and no people in the Central Office.

Mr. ROWLAND of Connecticut. Is the concentration on the medical account because of, as the General stated earlier, the low percentage of bed occupancy?

Dr. GRONVALL. No, the reason there is a staffing reduction projected in the medical care account is that the overall request is controlled within the budget summit agreement. As this budget was refined through the executive branch review process, accommodation for that had to be made. The details of the budget describe both increasing and decreasing personnel needs in the medical centers. The net impact of the changes is a 1,782 FTEE reduction for the medical care account.

Mr ROWLAND of Connecticut. Dr. Gronvall, I'm slightly confused. Are you saying that the budget summit agreement and/or the Office of Management and Budget made the decision that the cuts would occur in the medical, or was it the decision of your office to decide where the employee reductions would come from?

Dr. **Gronvall**. The budget summit agreement controlled the aggregate requested increase for each of the major appropriation accounts.

Mr. **Rowland** of Connecticut. But again, let me rephrase the question. Isn't it the decision of your office to decide where those reductions will come from? In other words, if the decision was some from Central Office, some from the medical account, and some from other accounts, would you have that flexibility?

Dr. **Gronvall**. No, each of those appropriations is looked at on its own merits through the executive branch review and each is controlled by a series of factors and negotiations. We do not have discretion to move between those accounts.

Mr. **Rowland** of Connecticut. I'm not after anybody's job in the Central Office, don't get me wrong. I know quite of few of you here. I just wanted to find out for the record what the decisionmaking process is. I think there's a lot of confusion on that among the Members. Thank you very much.

Thank you, Mr. Chairman.

The **Chairman**. Thank you.

Mr. Penny.

Mr. **Penny**. Thank you, Mr. Chairman.

General Turnage, for the record, would you tell us why you didn't include in the budget documents the amounts returned to the Treasury as a result of reductions in basic pay under Chapter 30? I think Chairman Montgomery requested that the VA include that information in their budget from now on. I know that's not a budget account that is part of the VA, but it is something that helps us understand the overall net cost of GI education benefits.

Administrator **Turnage**. I didn't get the whole question, I'm sorry.

Mr. **Penny**. I'm trying to find out why you didn't include in your budget documents the amounts that have been returned to the Treasury as a result of reductions in basic pay under Chapter 30. Chairman Montgomery asked that the VA in its budget submission include that information so we can net out the effect of the education costs.

Mr. **Vogel**. I only know what the reduction amount is. I really am not prepared to answer why that wasn't included in the budget documents.

Mr. **Penny**. Share that with us, if you know what it is.

The **Chairman**. I think I can clarify and I appreciate the gentleman asking the question. We requested information on the money under Title 30 of the GI Bill where the active duty soldier puts up $100 a month for twelve months to be eligible for the GI Bill. The account has risen to over $300 million. A big account, a lot of money, especially when you add 6 percent to that. What we're saying is it pays for the GI Bill almost through the year 1990. For some reason, it was left out of the budget that was sent up here—that large figure. The question is why was it left out? Did the VA cut it out? Did OMB tell you not to put that figure in? That's important, that's a lot of money and it's a good program.

Mr. **DeWire**. Mr. Chairman, we did put it in our budget request. We identified through 1987 $312 million and we did show that this would be equivalent to $32 million in interest if we borrowed the funds at 7.3 percent because there is a compounding effect which takes place over the years. However, OMB did take that out.

Mr. PENNY. Okay. The point is that——

The CHAIRMAN. That doesn't make sense.

Mr. PENNY [Continuing]. VA should account for that so we can net that out with the cost of the program.

The CHAIRMAN. Excellent question.

Mr. PENNY. Let me move into another area dealing with veterans' training. Although the number of veterans training under the Vietnam era GI Bill is declining, trainees under the Montgomery GI Bill will increase substantially in the coming fiscal year. An overall increase of approximately 19,000 veteran students is estimated. How do you plan to staff for this increase when you have recommended an FTEE reduction of 492 in the Department of Veterans' Benefits? And how can you provide timely service to veterans and still make staffing cuts of this nature?

Mr. VOGEL. Mr. Penny, we have a phenomenon working of declining enrollment in the Chapter 34—the the non-contributing GI Bill. As that drops off the Chapter 30—the Montgomery GI Bill Active Duty and the 106 reserve program—pick up. We're within our acceptable time limit standards in handling the current education programs. It's interesting to note we now administer seven discreet education programs. We've absorbed those within existing staffing. We think as we fall off in the Chapter 34, we'll be able to maintain the staffing level to continue with the Chapter 30. We have Chapter 30 centralized right now for processing in the St. Louis Regional Office. We're experimenting on a trial basis with some ADP initiatives which we believe so far have enabled us to do a good and timely job in administering that particular benefit.

Mr. PENNY. But it does appear that the increase in students is going to be significant. And yet there is a noticeable decline in staffing. I can perhaps see some efficiency or productivity factors that could allow you with the same amount of staff to deal with an additional number of students. But when the student numbers are going up and the staffing is going down, that defies logic.

Mr. VOGEL. We are now processing the largest enrollment in the Chapter 30 program with a system which is run on large personal computers. We'll have a payment system in place in April similar to the target system with which you're acquainted. We had to revise the estimates on the number of trainees as we've seen the participation rate on the active duty people continue to go up. It is very likely that while it's now processed centrally in the St. Louis Regional Office, we would likely identify other regional offices to process that work as enrollments go up. But the thought right now is that we could handle very efficiently up to 75,000 trainees at the St. Louis facility.

Mr. PENNY. One last follow-up, Mr. Vogel. Is the recommendation of a 492 FTEE reduction a recommendation that's been made by OMB or is that reflective of the recommendation you made to OMB? What did you recommend to OMB? I assume this 492 reduction is something that's in the final budget and that's what you have to present today. Is that what you asked of OMB?

Mr. VOGEL. No it isn't what we asked. It's important to note, I think that within that 492, while we've identified that in program areas, as Mr. Applegate suggested earlier, we leave to the management discretion of our regional office directors where in fact to allocate personnel.

Mr. PENNY. But in this area, what was the staffing level that you——

Mr. VOGEL. I don't have that number with me, Mr. Penny, but I would be pleased to provide it for the record.

Mr. PENNY. But you didn't request from OMB a reduction of 492 FTEE in this area?

Mr. VOGEL. No we didn't sir.

[Subsequently, the Veterans' Administration furnished the following information:]

The Department of Veterans Benefits 1989 OMB General Operating Expenses request reflected a 345 FTEE reduction.

Mr. PENNY. Thank you. Mr. Chairman, I have some other questions, but I could submit those for the record.

The CHAIRMAN. All right, Tim. Let me follow up.

John, I hope you won't let it happen that these applications pile up in the different regional offices. The reason I say that is because DOD is not doing a very good job of certifying that these young men and women have been off to three months basic training and that they are eligible. That's caused us a problem. But I certainly hope—and I'd like to stress—that you process these applications because we don't want to lose any of these young men and women. The Army says the new peace-time GI Bill is the best recruiting incentive that they have to get qualified young men and women into the service. It's better than the bonuses and pay raises. So we have something good here. But we have to get those applications processed.

Mr. VOGEL. Yes sir, Mr. Chairman. The only area where we're having any difficulty in is the 106 program—the reserve program. And we're working effectively with the respective service departments. We have 13,000 reserve units reporting eligibility information into a central system. It winds up in Monterey at the Defense Manpower Data Center, and then to the Veterans' Administration. Very frankly, getting 13,000 units up to speed on how to do that has been a bit difficult. That's been the only thing that's been troubling to us. But we expect to be able to work through that.

The CHAIRMAN. We can help you on that if you really have some problems. Let's be sure to get on it. We hope we can straighten that out.

Mr. VOGEL. We're on-line now to their computer. We get the information updated on a regular basis. It's a question of how much good information goes in and we're working with them on that.

The CHAIRMAN. John Bryant of Texas?

Mr. BRYANT. Thank you, Mr. Chairman. General Turnage, I'm asking this question in hopes that you're already familiar with the VA construction project at the Dallas Veterans' Administration Medical Center. It involves a clinical addition and the complete renovation of Building 2 and the construction of a Spinal Cord Injury Center there. To lay the predicate for my question—I'd like to point out to you that planning for this began in August 1983. By 1985 we had already spent $3.5 million on it and had completed the preliminary drawings. But to go forward with the project, an appropriation for about $15 million more is needed to complete the final drawings.

Funds for completion of the working drawings first appeared in your Five-Year Medical Facility Development Plan for FY 1985 and have appeared in each year's plan since then. Yet you do not ask for an appropriation for this item. I want to ask you why and I also want make an observation about it.

It seems to me very inconsistent with the data that I'm sure has been made available to you by the VA hospital in Dallas about the situation there. We have 473,000 veterans in the 28-county primary service area of the Dallas VAMC and that number has increased in each of the last 10 years. In fact, in 1986 the workload there increased by 80,000 visits over the previous year. A backlog of four to six weeks now exists for urological, ophthalmological and thoracic surgery. Open-heart cases are being postponed there due to a lack of beds. The operating rooms are small by today's surgical design standards.

Finally, in 1982 the VA Spinal Cord Injury Service recognized the Dallas VAMC as the most active VA medical center in the country in the treatment of spinal cord injury patients which does not possess a dedicated spinal cord injury facility. Right now the people that need this kind of treatment are having to travel six hours down to Houston to get it. All in all, my question to you is, in view of all this, why is it that you have not requested funds for this project?

Administrator TURNAGE. Let me ask for two experts in that field. First, Dr. Gronvall from the standpoint of priorities and second, the progress of the proposal from Susan Livingstone, who is in charge of logistics.

Dr. GRONVALL. Each year we review all of the projects we have across the country. We have a prioritization methodology that takes into account local needs and the kind of documentation that you have described. Using these methods we put all of the proposed major construction projects into a priority order. Our Office of Facilities then compiles a proposed budget which gets negotiated at OMB. Susan Livingstone can comment on the latter half of the question.

Ms. LIVINGSTONE. Thank you, Dr. Gronvall. Mr. Bryant, I would like to echo that the Dallas clinical addition and spinal cord injury center project is indeed a very high priority for the VA. This project was considered during the fiscal year 1989 budget development and quite frankly, given the resource levels we were provided, we are going to have to defer provision of the working drawing funding until fiscal year 1990 consideration.

Mr. BRYANT. That means that the OMB told you that you couldn't do it. Is that what that adds up to?

Ms. LIVINGSTONE. The Dallas clinical addition was one of the projects that was under consideration when the VA was discussing the construction budget request with OMB.

Mr. BRYANT. OMB said you don't have enough money for it, so you can't ask for that appropriation this year. Is that right?

Ms. LIVINGSTONE. The Office of Management and Budget in consideration of the construction budget did provide, within the resources available, the VA's priorities in the replacement/modernization category. We have a lot of very high priority projects in these mega-dollar level projects. Dallas, as you know, is about a $150 million project overall. During the course of our discussions with OMB, and given the resource levels that were permitted for the fiscal year 1989 construction budget, OMB did fund the projects for us in the order of our priorities. Again, Dallas was a consideration, but the dollar levels did not permit its funding for working drawings in fiscal year 1989.

Mr. BRYANT. What are your plans for the Dallas Veterans' Administration medical center?

Ms. LIVINGSTONE. We hope to be able to move forward quite promptly in fiscal 1990 and request the working drawing monies then for $15 million. As you well noted, the preliminary design is completed except for some minor revisions being done to the spinal cord injury unit. So the project basically is awaiting funding for working drawing design at this point.

Mr. BRYANT. As you well know, this committee has tried hard already to get the money for this project. I'm sure we'll try again this year. The Appropriations Bill last year included language which indicated to me that they were probably going to appropriate money for fiscal year 1989, which I think is wise. I think there are valid questions to be asked about a process that began as early as this one did. The Federal Government has already spent a lot of money and every indication is that this is needed. Yet we continue to delay while the project's total cost goes up and a lot of people who are entitled to receive what we promised them—the veterans—are not being served. This is a cruel thing. It's a cruel thing to make a guy travel six hours down to Houston to get treated for a spinal cord injury.

Ms. LIVINGSTONE. Mr. Bryant, as I indicated, I fully appreciate and recognize the high priority this project has. Unfortunately, there are a great many demands on the VA's construction budget. As you know, we have 172 medical centers nationwide. A lot of those buildings are well over 50 years old. So as we're moving forward, we're moving as quickly as we can to replace those in the priority that we can. As you know, budget levels in recent years have not been quite as high as they have been previously and we're trying to accommodate this project as quickly as we can.

Mr. BRYANT. But the fact that the budget levels haven't been quite as high is not something that is beyond the control of the executive branch. It's a result of their policy decisions. And I want to make it clear to whoever might be listening that while you guys come up here and say you are the advocates for the veterans, the advocate for the veterans ought to be the President of the United States. And he's the fellow who's cutting back on these proposals. The OMB is the White House. You guys are the White House. That ought to be made very clear to people.

I think I knew what your answer was going to be before I asked the question. Before I finish, I want to make sure that none of you think that Mr. Kennedy was alone when he was asking those questions and making those comments a while ago. I agree with every one of them. And I would have said every one of them in his absence. I don't think I'm the only Member of the committee who feels that way.

The CHAIRMAN. Let me follow up on Mr. Bryant. This project has been around over three years, hasn't it, John. I assume you support the policies of the VA and you do submit it to the administration, OMB, then it gets struck down. I want to have that clear for the record. What happens?

Ms. LIVINGSTONE. Mr. Chairman, the Dallas clinical addition, I believe has been submitted during the budget consideration to OMB for the last two fiscal years. It has not been submitted then in the subsequent budget that has been presented to Congress. It's been in the VA's proposals to OMB.

The CHAIRMAN. You didn't submit it this last time?

Ms. LIVINGSTONE. Yes sir.

The CHAIRMAN. You did not?

Ms. LIVINGSTONE. We did. I'm sorry, I misunderstood you.

The CHAIRMAN. Okay. Thank you.

Ken Gray of Illinois.

Mr. GRAY. Thank you, Mr. Chairman.

I want to join you and the other Members of the committee in welcoming this great aggregation of administrators. And as an old past-commander of the American Legion, I appreciate the good work you do, although we find a lot of projects and a lot of individual veterans' cases fall through the cracks from time to time. Mr. Administrator, I have several cases I could present to you. One was a recent case at the Marion, Illinois Veterans Hospital, who was a prisoner-of-war during World War II and shoved in a wheelchair at the front door and they told the wife to take him home—they couldn't do any more for him. He died a few days later in a civilian hospital and ran up a large bill. And now the VA refuses to pay the bill on the grounds they didn't pre-approve the civilian hospitalization. There's a lot of cases I could recite.

As chairman for many years of the House Subcommittee on Public Buildings and Grounds of the House Committee on Public Works, I know the General Services Administration always tries to keep ahead of the deterioration of existing Federal buildings. And there are some 12,000 courthouses and about 39,000 post office buildings in the United States.

The reason I bring this up is the fact that their budget increases each year because of the continuing needs for housing, social security and other government agencies. I was a little disappointed, to say the least, when I found out that your budget for rehabilitation is $62.2 million less this year than it was last year. Yet over 50 percent of all the VA hospitals in the United States are over 30 years old. The one in my district at Marion is almost 50 years old. So I'm wondering what justification—if you could give us the strategic planning as to how you can justify a reduction of $62.2 million in your rehabilitation budget of these hospitals that are, as I said, an average of over 30 years old.

Ms. LIVINGSTONE. As Mr. Hoffman, our controller, indicated in his response to a previous question, our actual budget request to OMB for our construction budget was about $811 million. The subsequent budget that's been proposed to Congress is a little over $500 million. Basically we feel this is a good budget level. I quite agree with you that we need to stay on top of the capital plant needs of the VA. In fact, we just recently completed a capital facilities study of the Veterans' Administration's buildings which quite frankly shows they are in remarkably good shape. We've had a very good maintenance program over the years.

Mr. GRAY. Are my figures accurate? Is this an accurate figure of $62.2 million less than you had last year?

Ms. LIVINGSTONE. It's $62.2 million less in the replacement/modernization category, I believe.

Mr. GRAY. That's what I'm referring to.

Ms. LIVINGSTONE. The replacement and modernization category in fiscal year 1989 is $62.2 million less. However, as you know we have a lot of categories of other types of projects, in terms of nursing home care, domiciliary, environmental improvements for patient privacy as well. But overall, yes, the replacement/modernization category is down this year over the 1988 request on the order of about $62 million. The overall construction budget reduction this year over last year is 4.2 percent.

If I could place that in perspective though, the VA has, as the committee knows, fared quite fortunately in the construction budgets over the last number of years. Quite frankly, between fiscal years 1983 and 1988 we received a 57.7-percent increase in our construction funding levels over the previous six-year period. So we've had some very high and some very good budget years for us and that's enabled us to undertake a tremendous amount of work in this system. There is more work, as Mr. Bryant has well pointed out, that remains to be done. And we'll be funding that as we can, given the resources in the future.

[Miss Kaptur assumes the Chair.]

Mr. GRAY. Madam Chairman, I'd like for the record to show I think it's really a disgrace when the General Services Administration can go to OMB and get a higher priority to build a facility for whatever agency, Environmental Protection Agency, the Bureau of Land Management, or whatever—give them preference on getting funding from the Congress over veterans' needs. I think this is an area that we definitely need to look at.

While I have the floor, I'd like to ask the Administrator if he could tell me why the Marion, Illinois, outpatient clinic, which serves parts of Indiana, Kentucky, and Illinois, has been put off for three years in a row. I was told it was going to be budgeted in FY 1987, then it slipped to FY 1988, and then slipped to FY 1989. Then I had the committee chairman here recently write a letter to VA and they came back and said now it wouldn't be budgeted before FY 1990 or FY 1991. I'm just wondering if this is another OMB project, like the gentleman's from Texas, that got chopped over at OMB. Would anybody like to address that?

Ms. LIVINGSTONE. Mr. Gray, the Marion, Illinois, project was not one of those requested from OMB this year. Marion, Illinois, as you may know, is one of the first pilot test sites for our facility development planning process. That is a comprehensive assessment we're making of all VA medical centers in terms of both their physical and functional needs, as projected to the future. Marion is one of the first four sites where they're doing that. Based on the completed facility development plan which is nearing completion at

Marion, we hope we'll be able to move forward with design on the Marion project in fiscal year 1989 or next October.

Mr. GRAY. I thank the gentlelady.

Miss KAPTUR [Presiding]. Thank you, Mr. Gray. General, I wanted to ask you when you submitted your budget to the OMB, did the Veterans' Administration request a decrease in medical care personnel?

Administrator TURNAGE. We did not request a decrease in medical care personnel.

Miss KAPTUR. Thank you sir, I appreciate that. As you know, I Chair the Housing Subcommittee. One of our great concerns is the long-term solvency of that program. And one of the things that has surprised us is that you have not yet come to us with a request for a supplemental appropriation for this year. Now, you have already received close to $400 million and we had been anticipating a supplemental request. Could you give me an idea if that is going to be submitted shortly?

Administrator TURNAGE. First of all, let me suggest to you how much I appreciate your personal interest and concern about this whole issue. It's a very delicate one from my point of view and we think it's important that we do all we can to resolve it in the interests of the veterans. We're trying and I know you are.

Second, with regard to the supplemental, we have made that entry already to OMB. It's there at the present time and we're hoping that it will receive priority treatment because we've requested that it would be so.

Miss KAPTUR. All right, thank you, General. You must get frustrated, and in some ways I feel sorry for all of you as you get hit from both sides here. Yet, you have to serve a very worthy constituency under very difficult conditions. On this housing budget, your budgets have come up year after year and we are using a lot of stop-gap measures to help the program continue. Have you had the luxury within the VA to take a look at a longer-term approach to the solvency of the VA guarantee loan fund? We saw in the budget proposal this year, and we are anticipating from OMB, the supplemental request and more asset sales—portfolio loan sales. Have you taken a look at how we are going to make this program self-sufficient again? Is this part of the discussions within the VA currently?

Administrator TURNAGE. One of the initiatives, of course, has been put forth for the last couple of years, but has not been approved by this committee and others. That would be on the basis of an increased contribution on the part of the veteran at the time he bought the home. That would not be on a lump-sum basis at any time, but could be over the period of the loan. For example, if the loan is 30 years—I think the figure we used a couple of years ago when we were defending that proposal was something on the order of $10 or $15 a month for the veteran in that instance. That seemed reasonable, as opposed to what we're doing now and where we find ourselves with regard to such a deficit from the standpoint of having to come back for increased amounts of money.

Miss KAPTUR. That is the extent of your thinking to date?

Administrator TURNAGE. No, we also tried to have, in concert with other agencies that have similar problems, discussions of their initiatives and procedures to try to overcome that. But from the standpoint of specifics, I would once again suggest that maybe John Vogel could make a better contribution to this than I.

Mr. **Vogel**. Miss Kaptur, just the other day I authorized the solicitation for a study to determine the feasibility of some sort of a mortgage insurance. If that is determined to be feasible, then we would go on to secure the services of financial actuaries to determine whether that, perhaps in concert with appropriated funds or without it, would bring an end to the solvency problem. We would all like to see it end.

Miss **Kaptur**. Mr. Vogel, we are going to be holding hearings on the solvency of the fund and we will welcome your testimony at that time.

I also had some rather parochial questions. You don't have to answer these today; if you could just get back to me with a letter. One question has to do with whether the schedule for the rehabilitation at the Sandusky, Ohio, nursing home is on schedule. We have several old buildings that are supposed to be rehabilitated. Is that proceeding along?

Also, after hearing some of the testimony here this morning on outpatient clinics, in looking at the official request to reduce medical personnel, I have to say that I can't be the only district in the country that has problems at its outpatient clinics. The mother hospitals, because of the restrictions in staff, are pulling people back. I'm wondering if you have taken a hard look from a policy standpoint at how we're going to be serving these outpatient clinics. It is just like pulling teeth to get physicians in place and to maintain good medical service at the outpatient clinics. They are really forgotten because they are under the control of the mother hospitals. Do you have any such policy review internally to make sure that they do have appropriate staffing levels at these outpatient clinics?

Dr. **Gronvall**. Miss Kaptur, yes we do review staffing carefully. We have believed over the years, and I think this is a sound position, that the best place to make that judgment is at the local level where the relative needs in the hospital and in the clinics can be judged. Those actions and decisions by individual medical centers are then reviewed centrally as part of our normal operating review each year by our regional directors and our Central Office staff. If we see evidence that the staffing is getting out of balance at any particular place, we would then take steps to restore an appropriate balance. We conduct visits to the medical centers on a regular basis and staffing is considered in detail.

Miss **Kaptur**. Dr. Gronvall, I wonder if you could provide me with a letter that shows, in terms of your proposed staffing levels at outpatient clinics serving a population of our size in Toledo, how our clinic ranks in terms of service and medical personnel assigned. I'd be very interested in how it compares to your national averages.

Dr. **Gronvall**. I want to be sure that we respond to the right question. Let me restate it and be sure it's correct. You're interested in, for this current year for example or the most recent year for which we have data, relating the number of staff at the clinic to the workload of the clinic and comparing the Toledo clinic to our national average.

Miss **Kaptur**. That is correct.

Dr. **Gronvall**. We'd be pleased to provide that.

[Subsequently, the Veterans' Administration furnished the following information:]

For the Toledo, Ohio outpatient clinic for FY 1987, the data requested are as follows:

Average annual FTEE excluding dentists	52.1
Total annual visits (excluding dental)	42,622
Ratio of annual visits to staff	818/1

For comparison purposes, national data are provided.

Satellite outpatient clinic staff FTEE (excluding dentists)	2902.0
Satellite annual visits (excluding dental)	1,726,203
Ratio of annual visits to staff	595/1

Note: All workload data exclude Fee visits but include one-day dialysis.

Miss **Kaptur**. Before I call on Mr. Florio, which I will do in 10 seconds, I want to say that I have a statement to be placed in the record and ask unanimous consent for that. And also to say that as one Member of this committee who probably shares your frustration at trying to serve the veterans of this country, I find it incredible that in a decade where we have raised defense spending to the extent that we have, we have constricted and not permitted our veterans' budget to at least receive a portion of that funding. I consider the people who serve this country to be our first line of defense and I think it's appalling that the President has not paid as much attention to them as he has to hardware.

Thank you, Mr. Chairman. I'll turn the gavel back over to you.

[The statement of Congresswoman Kaptur appears on p. 157.]

The **Chairman**. Mr. Florio?

Mr. **Florio**. Thank you very much, Mr. Chairman. Good morning, gentlemen, General. I have two questions. One is general and the other is somewhat parochial.

The general one, and General, you asked earlier for a name—Mr. Martin. Mr. Martin was a veteran who was in the Coatesville hospital in Pennsylvania, transferred to the Philadelphia hospital for treatment, and got treatment. Unfortunately, he got the treatment of a different Mr. Martin and as a result of that, died. Your preliminary report came back and said that it was incompetence, it was systems that weren't working. The Mr. Martin for whom the treatment was supposed to be, was discharged a few weeks before the Mr. Martin who got the treatment even was treated. The conclusions of that preliminary report indicate a lot of problems, not the least of which is understaffing, and morale problems that flow from inadequate staffing at the VA hospital.

So it seems to me that the general thrust of what it is you hear today is almost our feeling that this discussion is an "Alice in Wonderland" discussion; that what we're talking about is inadequate capability in the system at this point. Then we're being told that there will be reductions in staffing and reductions in some of the financing. In a sense, implicitly we're saying the problem will be taken care of through productivity. And productivity, of course, takes lots of different forms. Then we look at some of the reductions that are coming in the areas that you would associate with productivity—reductions in capital investments, in modernization programs. So that's not a productivity gain that will be achieved, likewise.

Then we're told that stays will be shorter and that will enhance productivity. I guess if you're an MBA out of Harvard, you can do those types of calculations so you can show demonstrable productivity gains without factoring in the adequacy of the care from shorter stays.

Then others talk about the need to evaluate our health care delivery system in the context of the overall health care delivery system in the country. But of course the universe of patients that we're talking about in the VA system does not really mirror the universe of patients around the country—as we talk about the patient population getting older disproportionately to the general population demographics getting older. We will see that we need longer care, more acute care, more long-term care. And as I see the budget allocations, we're talking about only 120 new beds for long-term care proposed in 1989, when I understand that your studies themselves talk about the need for 3,500 nursing care beds by 1992 as being the requirement. So we're not doing a whole lot, even in that area.

I am less offended than some of the other Members here because I regard this whole discussion as a facade, really not a real discussion. The reality of what's happening, of course, is decisions being made on a budget-driven basis. And OMB is a much more significant force in this discussion—they really should be here rather than you. We're not talking about policy-driven goals any more. We're talking about budget-driven goals.

I almost reluctantly accept that as a fact of life and we will try to make your life as miserable as possible, as we try to firm you up. Really, we are allies. We think of ourselves as allies so that you can then have a stronger negotiating posture when you go and talk to the powers that be at OMB.

Having said all of that and almost accepting that these are not going to be easy times for veterans, particularly in the health area if we accept the parameters of the debate that we've had for the last couple of years, let me ask you about Plan 2—the potential for Plan 2. I'm not a great support of voucher systems in lots of other areas because the voucher system, if you're talking about low-income housing, doesn't work when you have an inadequate supply that you're vouchering about. But in the area of health care, the general system around the country is one of excess supply, excess capacity. The chairman and I have talked preliminarily about some these things.

Is anyone doing any discussion or internal planning about the option of utilizing a voucher concept—to be able to have a veteran in the Philadelphia area who can't get into Coatesville because of inadequate capacity or can't or doesn't want to go to Philadelphia because he doesn't want to take his life in his hands—is anyone thinking about utilizing the surrounding hospital core system that is operating over-capacity now? Is there anyone who is working on this type of an approach?

Administrator TURNAGE. I think the answer simply sir, is to say "possibly".

Mr. **Florio**. And?

Administrator **Turnage**. However, we do not endorse the idea of a voucher system in the sense that you're suggesting. In my earlier statement here, I pointed out that in our 172 hospitals we have an average occupancy rate of about 68 percent. We have many of our hospitals that have occupancy rates of substantially less than that. So the point is, there is no need, from our perspective, in order to achieve that. Except for nursing home care or domiciliary care, we do have an arrangement with the States and we do in fact put some people in local nursing homes and otherwise under the contracts that are available to us. And they are inspected by us for quality and otherwise.

Mr. **Florio**. Obviously, when you point to the number of undercapacity hospital beds it's the question of misallocation of resources—that there are areas where you apparently have oversupply and other areas where there is under-supply where the resources, because of historic changes and population changes, are not being utilized. So it really is not satisfactory to come and talk to a Member from Texas and tell him you have a hospital somewhere else that is not being fully utilized. The question is how do we now reallocate our resources to utilize them more efficiently toward the end goal, which it to provide care for veterans where the veterans are?

Administrator **Turnage**. Well, where there is excess space and based on the demographic implications, we plan to make conversions to nursing home care. Now, in some of the Sun Belt, and I specifically mentioned Florida before, it's an exceptional case. Our priority for future construction of hospitals and nursing homes is in these areas. So I think the system is responding, but not nearly as fast as we would like it.

Mr. **Florio**. 120 beds out of the need for 3,500 by 1992 isn't a particularly large installment in the short period of time that we have. Is there a particular reason why this is such a low——

Administrator **Turnage**. There are other alternatives available also.

Mr. **Florio**. The conversion you're talking about?

Mr. **DeWire**. Maybe I can clarify some misunderstandings. There's a request in the budget for 120 nursing home beds. Through conversions and activations during the 1988–89 time frame, you're talking about 1,920 new nursing home bed coming on-line.

Mr. **Florio**. If we were here last year with the same question and you came forward with the conversion expectations, how many beds were converted in 1987?

Dr. **Gronvall**. We can provide that figure.

Mr. **Florio**. Somebody must have off the top of their head a ballpark figure.

Dr. **Gronvall**. You're asking the number of beds converted in the last fiscal year, and I don't have that figure at my fingertips. I don't know if we have someone here that has that figure.

Mr. **Florio**. Mr. Chairman, I want to make an observation. We have a lot of high-priced talent here and I've been listening through the course of the morning and I get an awful lot of uncomfortableness about people not being able to answer some fairly fundamental questions. I know it's not something to provide us with no information, certainly everyone wants to provide information. But if someone can't tell me that there were 3 beds converted last year, which is my understanding, or 100 beds, or 1,000 beds, that's a degree of lack of information that starts to reach the point of credibility being put into question.

Dr. **Gronvall**. I would just say, Mr. Florio, that we have staff in the room who have that detailed information available if——

Mr. **Florio**. Could somebody tell me if three beds is the number?

Dr. **Gronvall**. That is an incorrect number. Ms. Quandt can answer specifically as to how many nursing home beds in fiscal 1987 were made available through conversion of hospital beds.

Mr. **Florio**. That would be helpful.

Ms. **Quandt**. Congressman, there were a total of 18 beds converted—15 at Batavia, New York, and 3 at Cheyenne, Wyoming.

Mr. **Florio**. What is that total?

Ms. **Quandt**. Eighteen.

Mr. **Florio**. Eighteen beds.

Ms. **Quandt**. Yes.

Mr. **Florio**. Now you're telling me that for the next fiscal year we can anticipate how many beds being converted?

Mr. **DeWire**. During fiscal year 1988, the number of conversions planned is 528.

Mr. **Florio**. 1988 and 1989?

Mr. **DeWire**. The conversion figure is for 1988.

Mr. **Florio**. That's what you're anticipating?

Mr. **Dewire**. Five hundred twenty-eight.

Dr. **Gronvall**. And the number that's projected for conversion in the 1989 budget is 289 beds.

Mr. **Florio**. The information I have provided to me was for last year. The budget stated the VA would convert 60 hospital beds to nursing home care beds during 1987, and almost 300 beds would be converted in 1988. The response I just received was 18 beds have been converted?

Mr. **DeWire**. Yes, that's right.

[Subsequently, the Veterans' Administration furnished the following additional information:]

The conversions to nursing home care (NHC) beds originally planned for fiscal year 1987 were not accomplished for the following reasons:

Batavia, New York

Batavia VAMC had 55 operating NHC beds. They were to convert 25 acute medicine beds to NHC beds in fiscal year 1987. It has since been determined that additional Intermediate Beds are more critical than NHC beds and only 15 beds were converted in the fourth quarter of the fiscal year.

Buffalo, New York

The conversion of acute medicine to 34 new NHC beds has been changed from fiscal year 1987 to fiscal year 1988. This is due to the lack of available beds as a result of a continuing asbestos removal project which has kept a ward of beds out of service for an extended period of time.

Cheyenne, Wyoming

Three beds were converted in fiscal year 1987.

In addition to the 18 NHC unit beds acquired through conversions, 65 beds were added throughout the system due to a number of miscellaneous reasons, and the following NHC beds were activated during fiscal year 1987:

Miami, Florida	120
Alexandria, Louisiana	120

St. Louis, Missouri	60

The total NHC beds added in fiscal year 1987 was 383.

Mr. FLORIO. Well, that's not—if the projections are equally accurate from this point forward as they've been apparently in past, that doesn't hold out a lot of hope for the need for long-term care beds.

Mr. Chairman, I appreciate the time. If I could ask one question with regard to our perennial subject of interest. General, a clinic has been promised in South Jersey for the last several years, and we understand this is about to become a reality. I would just like a status report. This is the clinic, you may recall, that had no money budgeted last year, and apparently no money budgeted for it this year. But this is the one we are talking about being able to, under some discretionary authority, spend $500,000 or less without any budgetary authorization. Your anticipated action, at least the last time you told us, was that sometime before the end of this year there would be contracts signed for the long-term—for the clinic. And again I'm at a loss as to what you're going to buy for $500,000. But can you give me an update? Is someone in a position to give me some sense of where this is?

Dr. GRONVALL. Mr. Florio, the projection that was made at this hearing last year is exactly on track. Susan Livingstone can give you the specifics.

Mr. FLORIO. Thank you very much.

Ms. LIVINGSTONE. Congressman Florio, I need to make several points. The clinic to be established in Ocean County was funded in the fiscal year 1988 budget for lease award. Whenever we establish clinics we do an economic cost analysis that determines whether it's more cost-effective to lease the clinic, purchase an existing building and have it reconfigured for the VA's purposes, and/or to have the VA build it.

In the case of Ocean County the economic cost analysis determined it would be more cost-effective to have the private sector either build the building to our specifications and lease it to us, and/or reconfigure existing space and lease it to us. Therefore the money that was budgeted in fiscal year 1988——

Mr. FLORIO. How much was that?

Ms. LIVINGSTONE. The projected lease I think was about $400,000 a year at this point. The lease award has not been made yet, so I can't give you a precise figure. All the offers are in now. We're evaluating those offers. The lease award is scheduled to be made not later than April 30, 1988.

Mr. FLORIO. April 30, 1988.

Ms. LIVINGSTONE. Yes, by the end of next month.

Mr. FLORIO. And have you made the preliminary decision as to whether the lease will be for an existing facility or are you going to become involved with the lease contract whereby someone will build in anticipation of your signing a long-term lease?

Ms. LIVINGSTONE. That decision has not been made. I'm not privy to the actual offers that are being made. We treat the contracting process fairly close-hold. In our outpatient clinic situations, they can make two types of offers. They can offer to build the building to our specifications or alter existing space. I know we've received offers. I don't know what the specific configurations of those offers were. So I don't know which option will be exercised.

Mr. FLORIO. I'd appreciate any information you could get to me as rapidly as possible since this is apparently going to happen in April of this year.

Ms. LIVINGSTONE. Yes sir, we'll get a paper up to you tomorrow, with full details.

Mr. FLORIO. And could I ask—this is a generalized question. In these types of facilities——

The CHAIRMAN. I'm sorry, the gentleman's time is up.

Mr. FLORIO. Thank you, Mr. Chairman.

The CHAIRMAN. We certainly hope you move ahead on that New Jersey clinic. The Members have been very patient and we have several Members from New Jersey who have really tried to follow up on this situation.

Ms. LIVINGSTONE. Thank you.

Mr. SOLOMON. Mr. Chairman, if I might at this point, I didn't mean to interrupt the gentleman, but we really are running behind time, here. Chris Smith also could not be here and wanted to have a statement submitted for the record, along the same subject and support of what the gentleman is doing over there too.

The CHAIRMAN. Without objection, so ordered.

[The statement of Hon. Christopher H. Smith appears on p. 158.]

The CHAIRMAN. Jim Jontz of Indiana?

Mr. JONTZ. Thank you, Mr. Chairman. General, I do apologize that it hasn't been possible for me to be here all morning. But I appreciate your statement; I've had a chance to review it and appreciate the answers you have provided to questions this morning. Mr. Chairman, I would like to submit a couple questions in writing with regard to some facilities in my district. We're trying to get an outpatient clinic opened in Crown Point, Indiana. There have been some delays and I'm reasonably satisfied with the explanations we've heard from Chicago about that, but I want to submit a couple of questions. We're hoping that the opening can proceed expeditiously. I also have some questions about some budget cuts affecting the Marion, Indiana, VA facility. I would like also to submit those questions.

The CHAIRMAN. Without objection.

Mr. JONTZ. I do want to return for just a minute and use my time to pursue further the question that Congressman Harris asked with regard to the VJTA program. The way I understand your answer to his question, General, is that there is no money in the budget to extend VJTA past June 30, 1988 because there presently is enough money available for the veterans that you have in the program right now. Is that the correct explanation of the answer, Mr. Vogel?

Mr. VOGEL. No new funding will occur after the June 30 period. Eligibility runs out on June 30. We have unused funds still existing within the system now that haven't been applied for. Last year we didn't use all the funding either. It was on the basis of the experience factor and projected need that we suggested that no new requirement exists for 1989.

As General Turnage has said, when that program became law the unemployment rate for veterans was 6.6 percent. As of December 1987 the unemployment rate had dropped to 4.7 percent. We continue to have a significant amount of unobligated funds available and de-obligations that come back into the program. We see therefore no need to ask for funding when it's already there. That law was called the Emergency Veterans' Job Training Act. If there was an emergency then with respect to high veteran unemployment, it doesn't exist today.

Mr. JONTZ. Well I might respectfully suggest that if you're one of the veterans today who's unemployed, it's an emergency.

Mr. VOGEL. Yes sir, we——

Mr. JONTZ. I fail to see what is any less important about meeting the needs of veterans who are unemployed today when the unemployment rate is 4 percent than it would be to meet the needs of veterans who are unemployed when the rate is higher. Can you explain the logic of that to me?

Mr. VOGEL. What we have is a job training act. You have to have a job to be trained in. We really find that where jobs are available, veterans apply and avail themselves of the program. No manufacturer or service sector employer who has no need for personnel or can't afford to hire them is going to put a veteran in any program. We've had more success in putting veterans in the program where unemployment rates are lower. We have more pledges for jobs, for instance, in Connecticut than we have veterans to refer to them. So it hasn't satisfied the needs across the board with respect to pockets of unemployment largely caused by certain industry downturns.

Mr. JONTZ. If I might share with all of you gentlemen that fact that our Subcommittee on Education, Training and Employment did hold a couple of field hearings this last year on the VJTA—held one of them in my district in Shereville, Indiana. We heard testimony from numerous local employers and veterans expressing their satisfaction with the program. I do anticipate that there will be jobs opening up in northwestern Indiana over time and I also anticipate that we could see some veterans looking for work—it's possible Inland Steel will be laying off 1,000 people when they make a decision about a part of their facilities in Lake County. My concern is that some of those workers who have been in steel may well be veterans. I'm sure they are. And I want to know what can be done to see that the benefits of the VJTA are there to potentially get those workers, at some point when they become eligible, employed in northwestern Indiana. Given the success that we have had so far, though we are an area of relatively high employment, I don't understand your answer to the question.

Mr. VOGEL. We now project that at the end of fiscal 1988 we'll still have $8 million available, and at the end of 1989 an additional $3 million will become available. Your concern with the steel industry in your area reminds me of a recent phenomenon. Volkswagen of America had a very large plant in New Stanton, Pennsylvania, which they essentially are closing down. Personnel from our Pittsburgh regional office, augmented by our personnel from the local VA medical center there, have been down into that area working closely with community groups and veterans' groups. One of the things they have told these veterans about, of course, is the availability of veterans' job training act funds. Our people have worked with employers to try to match veterans with jobs. The program has been successfully administered

But the fact that we're running on a national basis a high unobligated balance suggests, as the Administrator very aptly put it, that there's no need to ask for more funds. I realize there are regional phenomena that happen that perhaps are suggestive of the program not working well. But on a national basis we still have money available. If veterans need VJTA in your district, there's funds available for that.

Mr. JONTZ. My time has expired and I'd like to conclude by saying I'm simply concerned that the money be available in the future to meet the needs that may exist at some future date. I appreciate you help in answering my question. Thank you, Mr. Chairman.

The CHAIRMAN. I want to thank the gentleman from Indiana for being so patient in waiting here today, as well as our witnesses. The Chair would like to recognize the Ranking Minority Member for any comments he'd like to make before we adjourn the meeting.

Mr. SOLOMON. Mr. Chairman, thank you very much. Let me also call attention to the panel that's sitting there. We haven't heard anything from the fellow on the far left. His name is Will Ebel, director of the Department of Memorial Affairs and he's doing a very good job out there too. While we're on that subject of good jobs, let me say to General Turnage—I think Marcy Kaptur said something about being a punching bag, a piece of meat, that we're all picking on you. I guess that just sort of shows a little frustration on our part. Let me just say that I for one understand OMB, or maybe I should say I don't understand OMB. But OMB has never changed under this administration, under the Carter administration, under the Ford and Nixon administrations. OMB is always OMB. I've even discussed this with Ronald Reagan.

It's too bad that sometimes OMB can't really reflect the feeling of the President of the United States or the director of the Veterans' Administration. But they don't, and I for one want to reiterate what a good job you all do under very trying circumstances. We appreciate it. Not that we aren't concerned, not that we aren't going to pick on you and keep your nose to the grindstone on some of these issues we've been talking about. Again, we really do appreciate your effort and don't think that we're picking on you personally. We're just trying to make our point, with a little frustration involved.

Administrator TURNAGE. If I may, Mr. Chairman. I know of no two individuals who are more supportive of the interests of the veterans in this country than the key people on this committee—you, Mr. Chairman, and you, Mr. Solomon. I appreciate that and I don't mind having my feet held to the fire because I know that our motives and our interests are precisely the same. However, when I go around to the veterans' service organizations in my presentations before them, I point out in every case that we'll never get all we want. But my objective is to get what we need in order to do our job properly and take care of the interests of the veterans. And that's what we really try to do in every possible way.

And it seems to me important to note that as we've gone around this room today and we've heard from Mr. Gray and Mr. Florio and Mr. Bryant and all others—each of them asked questions about, the parochial questions—How about my outpatient clinic? How about the improvement to my hospital? The question becomes, What is enough, consistent with need in order to be meeting my moral and statutory obligation to the veteran?

I can suggest that whatever comes out of this committee hearing, and routinely it has been in excess of that which has been asked for, we use it in the most prudent way. And we're grateful for that. But I still suggest that what we have asked for this year is consistent with where I think we stand in the country from the standpoint of availability of resources in a constrained environment, yet still providing the resources to take care of our people who have made their contribution to our freedom.

The CHAIRMAN. Thank you, General Turnage. I don't think there's any question that Jerry and I feel that you're coming from the same place we're coming from to do the best we can for the veteran. Our approach is sometimes different. Our restraints and who we have to work with are different. But I appreciate your patriotism and your hard work as well as the other Members in the Veterans' Administration group. We have, as I say across the country, as fine employees in my opinion as any department—in most cases better—working for the Veterans' Administration. So, we're all on the same track, it's just how do we get to do it and which way we get there.

We hope, General Turnage, that by Tuesday on some of these questions that we'll submit to you today and tomorrow you could get some answers back to us so we could work and come up with the budget request that we do make to Bill Gray's Budget Committee. It's very important that we get this information as soon as possible. Some of the questions you can have more time on, but we do need the answers on some and we will designate those questions.

I would hope that you have a group from the Veterans' Administration here tomorrow to listen to the testimony about an independent budget by veterans for veterans' programs. They've spent some money on it—the PVA, DAV, VFW, and AMVETS have put this study together and it's very helpful to our committee to compare the budget that has come down from OMB. So we would hope you would have some people here to listen to what these veterans' organizations have to say.

Chalmers Wylie from Ohio was here. He's been a Member of this committee for a number of years. He had to leave.

It seems, Jerry, a lot of this discussion revolves around OMB. We might think down the line to get the director, assistant director, or somebody that handles the veterans' account up here——

Mr. SOLOMON. I think that's a great idea.

The CHAIRMAN [Continuing]. And it would give us a better outlook of what's taking place on these veterans' budget submissions.

Thank you, General Turnage. I think it's been an excellent hearing. We appreciate very much you being here.

If there are no further comments, this meeting is now adjourned.

[Whereupon, at 11:36 a.m., the committee was recessed, to reconvene on Wednesday, March 3, 1988.]

PROPOSED VETERANS' ADMINISTRATION BUDGET FOR FISCAL YEAR 1989

THURSDAY, MARCH 3, 1988

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The committee met, pursuant to recess, at 9:33 a.m., in room 334, Cannon House Office Building, Hon. G.V. (Sonny) Montgomery (chairman of the committee) presiding.

Present: Representatives Montgomery, Applegate, Evans, Kaptur, Penny, Staggers, Rowland of Georgia, Kennedy, Patterson, Johnson, Jontz, Solomon, Smith of New Jersey, and Davis.

OPENING STATEMENT OF CHAIRMAN MONTGOMERY

The CHAIRMAN. The hour has arrived. The committee will come to order.

This is the second day of hearings on the budget submitted by this administration.

We will continue our hearings, as I said, on the 1989 budget for the Veterans' Administration. Yesterday we heard from the Administrator and his staff; today we will hear from the veterans' organizations.

You know, last Friday I mailed to each organization a copy of a brief analysis of the President's budget, prepared by the committee staff. I hope you had the opportunity to read it. I regret there is so little time to review the budget prior to the hearings here. Since we must report our recommendations to the Budget Committee on March 8th, we had to do the best that we knew how to do.

The administration's budget—and I want to stress this—is very misleading. We pointed that out yesterday to the Administrator. I certainly hope the veterans organizations had someone here yesterday to monitor the Administrator's testimony.

I think it's very important that you do when we talk to the Administrator. It makes it very important that veterans' organizations, which basically we try to listen to, that you hear what the Administrator says. It just makes it easier on communications.

As I said, the budget was misleading and is misleading, and the $30 billion is an apparent increase of $2 billion over the 1988 budget. But if you look at it very closely, one-half of this increase would go to the Administration's controversial credit reform legislation. That's $1.1 billion; that doesn't even get into helping the veteran as far as far as hospital care and other care that we have to do. The rest of the $2 billion is the difference in the result of understating the 1988 budget by over $1 billion.

In fact, in real terms if you back out credit reform and factor in the supplementals required to get through the current fiscal year, you find out that in 1989 $178 million is really lower than 1988. We're short that much.

There are many deficiencies. For example, the medical care budget is $10.3 billion, an increase of 2 percent from last year, less than one-half of the inflation factor projected by CBO. This means that the medical care budget is a deficit budget by the time you pay the increase in salaries and the cost of everyday supplies. We would be running in the red under the medical care budget, and it's predicted that the VA projected current services budget would be short by $370 million. The budget also includes a proposed decrease of 2,400 employees.

The Administration is requesting about $1.3 billion for AIDS. I want to stress this, we're going to need your help out there. None of these funds would go to the VA. We passed almost $1 billion in Congress last year for AIDS research, health and education. None of it was earmarked for the Veterans' Administration. We've got one-sixth of the patients. We've got maybe one-third or one-half of all the research being done on AIDS, but we're not getting any of the money that is earmarked especially for AIDS. We're getting some money, what we've been getting all the time, but this is just not right.

Under the full-time equivalent employees, there would be a reduction of 492 persons. This is in Veterans' Benefits that we're having problems on, getting these claims processed. Now we're going to reduce 492 more employees on Veterans' Benefits? This would, at least in my opinion, add at least 30 to 60 days more in processing these claims if you continue to reduce the staff in the Regional Offices.

Now, we've been waiting for the Department of Veterans' Benefits long-awaited computer modernization. They've dropped it from the budget. How can you speed up processing when you cut back on computer modernization?

OMB's policy of forcing the sale of VA home loans at great discounts and other decisions to reflect a brighter budget picture from one year to another has depleted the revolving fund. A supplemental of over $500 million is expected to be sent to the Hill. There is really a need for $1 billion.

Now, the supplemental, if it is not passed before the end of March, the VA may not be able to pay outstanding claims by the end of the month.

Let me wrap it up by saying that we really appreciate the group who will testify here today in this independent budget "by veterans, for veterans" program. It certainly has been most helpful to us, and keep doing it. Keep it up. It has just been tremendous. It has helped the staff a lot, and we can compare the Administration's budget with the independent budget.

We have the smallest staff on Capitol Hill. We have 33 or 34 people. We can't do all the work and all the research that's needed to be done on the budget, so you've been terrific to us.

I talked to the Administrator and told him yesterday to have somebody here from his staff and to listen to what you say today. Are there some people from the Administration here? If you're here, please hold up your hands.

[Show of hands.]

The CHAIRMAN. All right. How about identifying yourselves, please? Just stand up and identify yourselves.

Mr. CATLETT. I'm Mark Catlett, the Budget Service Deputy Director.

Ms. HARGON. Dana Hargon, Office of Congressional Affairs.

The CHAIRMAN. Speak up. We've got a lot of old soldiers up here and we can't hear you.

[Laughter.]

Mr. DUFFY. Dennis Duffy, Office of Congressional Affairs.

Mr. FLEENOR. Patrick Fleenor, Budget Services.

Dr. LEWIS. Dr. Arthur Lewis, Deputy Chief Medical Director.

Ms. MERKL. Anne Merkl, Department of Veterans' Benefits.

Mr. SMITH. Richard Smith, Veterans' Benefits.

The CHAIRMAN. Well, thank you. They do listen to us, the Members of the committee.

Miss KAPTUR. Mr. Chairman?

The CHAIRMAN. Yes, Marcy?

Miss KAPTUR. Might I just ask, are these individuals who just identified themselves all from the Veterans' Administration? We have no one from OMB here with us today?

The CHAIRMAN. Is anyone from OMB here, please?

[No response.]

The CHAIRMAN. That's our problem, too.

[Laughter.]

Miss KAPTUR. Thank you, Mr. Chairman. I just wanted to——

The CHAIRMAN. We're thinking they might be here next week.

Mr. SOLOMON. Mr. Chairman, would you yield at that point?

The CHAIRMAN. Yes.

Mr. SOLOMON. I might just point out that with OMB not being here, we can understand how they could just arbitrarily cut out something as terribly important as beneficiary travel allowances. I think this just shows how they can do such a thing.

The CHAIRMAN. They don't have a feel for it, and you make an excellent point. Nobody is here from OMB. Maybe they're here but just didn't want to stand up——

[Laughter.]

The CHAIRMAN [Continuing]. But I don't think so.

Jerry Solomon.

Mr. SOLOMON. Thank you, Mr. Chairman.

Mr. Chairman, I'm going to be brief, too. As a matter of fact, I'd like to submit my prepared statement for the record, along with those of John Paul Hammerschmidt, Bob McEwen, and Mike Bilirakis, who cannot be here today, and I think Chris Smith also has a prepared statement that we will submit for the record, too.

[The prepared statement of Chairman Montgomery appears on p. 159.]

[The statements of Mr. Solomon, Mr. Hammerschmidt, Mr. Bilirakis, Mr. McEwen, and Mr. Smith appear on pp. 164, 167, 168, 169, and 173.]

Mr. Solomon. Mr. Chairman, let me just say that I concur wholeheartedly with everything that you just said in your opening statement, so I will not repeat that except to say that we welcome all of you here testifying this morning, and we really do thank you for this report. As Sonny has said, it's really very, very helpful to all the Members and we hope that you will continue to do that.

Lastly, let me just thank all of you for your strong support in helping us to establish the Department of Veterans' Affairs at the cabinet-level status because your organizations really did a grass-roots job out there, which really gained the momentum that we needed. We appreciate that. Let's keep it on the Senate, though, so that we can get that bill on the President's desk before too long.

Thank you, Mr. Chairman.

The Chairman. We have two panels today. I want to let the committee know that. We will go by the same rules we had yesterday. We would like to ask the witnesses if they would summarize their statements, and we will ask you to try to keep it under five minutes.

I will introduce you. As I said, we do have two panels; we will hear from one panel and will go right through the panel. Each veterans' organization representative will testify, then we'll have comments and questions from the Members.

As I call your names, just hold up your hands.

Veterans of Foreign Wars, Jim Magill, Director, National Legislative Service.

Disabled American Veterans, Mr. Jesse Brown and Mr. David Gorman.

Paralyzed Veterans of America, Jack Powell. Jack had a victory yesterday on the House floor.

AMVETS, Mr. Noel Woosley, National Service Director. I believe it's your first time to testify here; is that right?

Mr. Woosley. Yes, Mr. Chairman.

The Chairman. It doesn't hurt much.

[Laughter.]

Mr. Woosley. I got an A in public speaking in college, so I'm hoping that will help.

The Chairman. Now you don't get that training.

[Laughter.]

The Chairman. This is the independent budget panel that actually put together this budget that has been very, very helpful to us. Thank you again.

We will start off with the way I introduced you. Jim?

STATEMENT OF JAMES N. MAGILL, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Magill. Thank you, sir. What I would like to do, if it's all right, I will give an overview of the independent budget, and then I will go into specifics on the construction aspects of it.

Four Congressionally-chartered veterans' organizations—namely, AMVETS, Disabled American Veterans, Paralyzed Veterans of America, and the Veterans of Foreign Wars—are pleased again this year to submit a proposed fiscal year 1989 budget covering all

Veterans' Administration programs, independent of OMB influence.

It represents our perspective on how the Federal fiscal restraint imperative can be accommodated without inflicting irreparable damage to veterans' programs.

Basic to our recommendations is a constraint to maintain, at the very least, a current program activity in consideration of significant present unmet needs for health care and a progressively deteriorating service in processing veterans' benefit claims.

Built-in, uncontrollable costs for such items as COLA increase, pay raises, inflation, and staffing of newly-activated facilities amount to $1.07 billion. No increase in the current program activity is to be derived from this expense. On the other hand, if additional funds are not appropriated, a considerable cutback in the benefits, medical care, and medical research will be required.

The President's budget falls short by $212 million of maintaining current program activity. Our total recommended VA appropriation level, as itemized in the VSO fiscal year 1989 independent budget, is $28.4 billion, with $28.1 billion identified for nothing more than maintaining current program activity.

Additionally, if the Congress were also to address the most flagrant of current VA service deficiencies, our specific recommendations for such corrective initiatives are estimated to cost another $345 million.

As is fitting in an era of austerity, our proposed additional program recommendations are modest, amounting to considerably less than 2 percent of the total budget figure. They place emphasis on managerial changes to improve benefit program processing and to pursue more efficient and cost-effective modalities of health care. An overview of those initiatives includes increased GOE staffing and staff training to correct the currently unacceptable delinquencies in servicing for all benefit programs; enhance integration of DVB and DM&S automated systems; equitable COLA treatment; update of grant programs and adequate funding of the loan guaranty program; a modest expansion of nursing home care capability through construction, conversion, and contracting; continued shifts to non-institutional extended medical care programs, including an increase in outpatient clinic workload; increased commitment to the AIDS program; care for the homeless veteran and the aging non-service connected medically-indigent veteran; initiation of a comprehensive effort to assess fully the magnitude of the unmet medical and social needs of entitled veterans; the development of a comprehensive human resources program, such that the VA can remain competitive with the private medical sector in recruitment and retention of health care; upgrade and maintenance of integrity of the VA physical plant, along with the development of more valid tools for measuring new construction need and accurate assignment of priorities.

A legislative proposal is being submitted separately, recommending Congressional action to authorize outpatient entitlement for all category A veteran patients; provide for beneficiary travel reimbursement to all category A veteran patients; authorize the construction of a national veterans' cemetery in every State; extend program authorization for the Veterans' Job Training Program, and extend program authorization for the State cemetery grants.

We four Congressionally-chartered veterans' organizations respectfully submit this fiscal year 1989 independent budget proposal and look forward to providing further testimony on its behalf.

With the remaining time I would like now to go into the specific area of VA construction, if you would have no objection to that.

As in other VA programs, need forms the basis for determining the appropriate level of funding for construction.

However, in this, our first attempt to develop a VA construction budget, we found the VA does not have the information required to formulate a needs-based construction budget. In formulating a budget, an inventory basis should include the recognition of maintenance and repair needs of existing structures; the systems and equipment used by Medical Centers; the shortfalls in existing space systems and equipment needed for the current activities of Medical Centers; and shortfalls in the space, systems, and equipment that will be required for future Medical Center operations.

Currently, the VA's construction priority-setting is limited to choosing among projects submitted by Medical Centers in the Five-Year Facility Plan. These projects may or may not address the needs of the VA on the whole as the VA sees them as a priority. What is actually happening is that the VA does little more than pick its projects from 172 uncoordinated laundry lists. The current prioritization method simply places requested projects in priority order and does not address true priority need.

The absence of a sound basis for establishing construction priorities is but one of the major defects in the VA construction process identified by careful studies that the VA itself commissioned. These include excessive time required for projects, typically 10 years from conception to completion; costs that are sometimes excessive; and the inability to deal systematically with problems in the construction process.

In addressing the VA's construction needs, our most urgent concern is for the VA to develop a construction process that works well. We envision a process that completes projects more rapidly, chooses projects based on need and on a sound system for setting priorities, provides projects that adequately meed Medical Centers' needs, is economical, and catches problems quickly before they become severe through a system of standards and indicators for monitoring ongoing performance along important dimensions, such as quality, timeliness, and cost.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low total construction appropriations for fiscal year 1989, appropriations totalling $541 million. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in fiscal year 1987, and is only $18 million above the very tight appropriation total enacted in fiscal year 1988.

Within this constrained total we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA facilities, most of which are quite old.

Our construction budget also reflects the reestablishment of a reasonable strategy for locating cemeteries in the National Cemetery System. At OMB's insistence, the VA has for years maintained that the system need have no more than one national cemetery, with available burial space in each of the 10 Federal regions. This means extremely long travel for widows and children of veterans honored by burial in a national cemetery. Realistically, it deprives many veterans of an option of burial in a National Cemetery System.

With respect to specific funding levels, we recommend $368 million be appropriated for major construction in fiscal year 1989. We recommend this reduction in part because the VA lacks the information and processes to evaluate construction needs, and in part because of general Federal budget constraints.

Within the $368 million total, we recommend $40 million for the advance planning fund and design fund. We have specifically designated $30 million for construction of new VA nursing homes. This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate of addition of the new VA nursing homes each year throughout the 1990's.

Finally, our recommendations for the major construction appropriation include $3 million for the acquisition of land for a new national cemetery in a State that currently has none.

With respect to minor construction, we recommend $169 million for fiscal year 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up-to-date. Our recommendation of $169 million for this appropriation for fiscal year 1989 is an increase of $53 million from the fiscal year 1988 level. We recommend this increase because of the importance of updating and repairing VA facilities.

This concludes my portion of the independent budget.

Of course, I will be happy to respond to question that you may have later.

[The prepared statement of Mr. Magill appears on p. 254.]

The CHAIRMAN. Thank you very much, Jim.

Jesse Brown, I've been told you're one of the better claims officers working for veterans, that you've done a lot of work in it. Congratulations.

STATEMENT OF JESSE BROWN, DEPUTY NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS; ACCOMPANIED BY DAVID W. GORMAN, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR FOR MEDICAL AFFAIRS

Mr. BROWN. Thank you very much for that comment, Mr. Chairman.

Mr. Chairman and Members of the committee, on behalf of the more than 1 million members of the Disabled American Veterans and its Ladies' Auxiliary, may I say how very much we appreciate the opportunity to appear here today.

At the outset we wish to make a general comment regarding the President's proposed fiscal year 1989 budget for the Veterans' Administration. In our view, the proposed budget fails to provide minimum funding to maintain current services at fiscal year 1988 levels and would make serious personnel cuts in both DM&S and DVB. VA health care services and veterans' claims processing will suffers should the VA's budget be approved as proposed by the President.

In the interests of time we would like to focus our oral comments on the VSO's independent budget as it relates to the Veterans' Administration's Department of Veterans' Benefits.

The independent budget proposal seeks funding for the GOE account over and above what is necessary to maintain current services. This includes an increase in DVB employment of 543 FTE's, and funding designated for training of adjudication staff. The cost of these proposals is approximately $17 million. The proposed DVB employment increases would provide 342 employees for compensation and pension and education service, 53 for vocational rehabilitation and counseling, 148 for veterans' service.

With respect to training, we recommend a training staff of 15 employees be established at a cost of $650,000. We believe DVB employment staff should provide assistance in developing educational modules and assistance for this training program from existing resources.

Further, training emphasis should be on employees involved in adjudicating applications for benefits.

It is central, in our view, that immediate improvement in the quality and timeliness of benefit determination be achieved.

In addition to increased staffing and improved training, we strongly support an acceleration of ADP system modernization, to include integration among all VA departments and other Federal agencies.

The reasons for our proposed increase in GOE are due to the general and progressive erosion in the quality and timeliness of service provided to veterans and their families by DVB in the past decade. This deterioration in service is parallel to the arbitrary cuts in staffing. For example, CP&E positions were reduced from 5,746 in fiscal year 1978 to 3,583 in fiscal year 1986, a decrease of 37.6 percent. During that period of time the reduced work volume would have justified a staffing reduction of only 18.7 percent.

This conclusion is supported by the VA's own system of assigning base weights to completed end products. Also, quality control and training functions have not been given proper attention in DVB because no funds have been provided for these vitally important activities.

Due to the grossly inadequate staffing there are huge backlogs in the DR&C program. For example, VA vocational rehabilitation specialists have an average workload of 182 cases, compared to a workload of 60 cases for their counterparts in State and other Federal rehabilitation programs. In Veterans' Services, 11 percent—or 1.2 million—telephone calls in fiscal year 1986 went unanswered because of staff overloads.

By anyone's standards this is totally unacceptable service for veterans. It is clear in our view that to restore a reasonable level of service to veterans, the budget must provide the resources to perform the task. The independent budget proposals demonstrate that this can be accomplished with a modest increase in GOE appropriations for DVB. Moreover, for the near-and long-term, the independent budget proposals are designed to increase quality and productivity, the two essentials for cost-effective administration of VA programs.

Mr. Chairman, there are other independent budget proposals for which we request the committee's consideration. They are a COLA, effective December 1, 1988. We would like to update the maximum grant amount for specially-adapted housing and automobiles; extend the eligibility date for the Veterans' Job Training Program to June 30th, 1989; establish a second Regional Office in Florida; and lastly, provide staffing and funding for the Loan Guaranty Program.

This concludes our testimony, and again I would like to thank you and the Members of the committee for allowing us to present our views on these important issues. Of course, we are available to respond to any questions that the Chairman or the committee Members may have. Thank you.

[The prepared statement of Mr. Brown appears on p. 262.]

The CHAIRMAN. Thank you very much, Mr. Brown, Mr. Gorman.

Next the Chair would recognize the Paralyzed Veterans of America, Jack Powell, Executive Director.

Let the Chair thank you especially for the work the PVA did on this independent budget in the area of health care. I know you had a great staff at work with Dr. Don Custis, and Dr. John Mather, who is on your full-time staff. It was very helpful to the committee and I hope the organizations continue with their good work.

Jack Powell.

STATEMENT OF R. JACK POWELL, EXECUTIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. POWELL. Thank you, Mr. Chairman. I appreciate your recognizing Dr. Donald Custis.

The four organizations that came together to prepare this budget again this year each has its own constituencies. Each organization is headed by strong-willed individuals, as one would expect from any fine organization. Keeping all us cantankerous people together on anything, as you know, Mr. Chairman, is a major miracle. Don Custis, I think, has done a job that few others would ever be able to do.

The CHAIRMAN. Mr. Solomon and I know that very well. Dr. Custis has appeared before the committee and our Hospital and Health Care Subcommittee on many occasions while he was the Chief Medical Director. All Members of the committee know him very well. When we had our differences we usually worked them out. He is highly regarded on the Hill.

Go ahead, Jack.

Mr. POWELL. Thank you, sir.

Before I start paraphrasing our testimony it seems to me that discussing this budget probably should take place somewhere just outside Orlando where they're used to dealing with unreality, because that's quite clearly what has happened here. I can't believe that the same President who would endorse a cabinet-level status for the VA could have actually ever seen or approved this budget, which may be another reason why we need cabinet status for the VA.

Let me talk primarily about the Department of Medicine and Surgery. First of all, the question is always on full-time equivalent employees. This budget calls for a reduction of 1,782 FTEE's in the Department of Medicine and Surgery. It's totally implausible for us to imagine how the agency can continue to maintain services and mandated bed levels based on the expanding demands of an older veteran population with fewer and fewer personnel. Even before the fiscal year 1989 budget is factored, the fiscal year 1988-enacted appropriation for DM&S is already $65 million less than the funding needed to keep the health care system operating at the 1987 level. At the same time, the VA's inpatient-outpatient projected utilization figures fall far short of what PVA believes to be the actual demand placed on the system by the potential veteran client population.

To name just a few, denial of outpatient services to the medically indigent to obviate the need for inpatient services is a problem we've seen. Medical needs of homeless veterans are certainly not addressed here. Increased cost for AIDS treatment, Mr. Chairman, you mentioned in your opening statement, and somebody in the VA seems to have forgotten that they just made an entire new class of eligible veterans, the merchant marine from World War II, who are going to be placing a brand-new demand, both on the Department of Veterans' Benefits and on the Department of Medicine and Surgery.

The budget states, as well, that it provides for the fiscal year 1989 anticipated 2 percent pay raise, and that just ain't so. It provides half the money, not all of the money, and again leaves the other half to be absorbed somewhere else in the budget. One can only expect that that's going to be taken from the actual delivery of health care to veterans.

The VA has projected an additional need. We've all been concerned about long-term nursing home care for veterans.

They've projected their own figures, an additional need of 3,500 nursing home beds by 1992. Yet this budget calls for the construction of only 120 new beds in fiscal year 1989. I guess maybe we have "instant nursing homes" that have been developed somewhere, but my experience is that through this governmental process it takes seven to ten years to approve and get a facility up and open and operating.

When are we going to propose the number of beds necessary? The VA last year talked about converting beds. They talked about it again in the 1988 budget; they talked about it again here in the 1989 budget. When our testimony was submitted we said that they had only converted three beds; I guess between Tuesday and today they managed to convert 15 more, but I wonder if they've admitted anybody to those beds yet? We know the veterans are out there in need.

The budget proposal calls for the conversion of 289 additional beds next year. If they managed to convert 18 in a little over 14 months, what has changed?

I think this budget constitutes a total abandonment of reality. I think it underscores the absolute incompetence and lack of management in the top leadership of the Veterans' Administration. If they come in here to this committee and make a commitment that they're going to convert X to Y, and they can't carry it through after you've given them the funds to do it, then who is at fault? Not the veteran out there; not the nursing assistant or the LPN or the ward technician or the nurse or even the doctor down there in that hospital. The senior management of the VA seems clearly to have lost all control over the operation of the agency.

With regard to the independent budget, Mr. Chairman, we are again proud to join forces with these other fine fellows here.

We hope that some other folks are going to join us next year when we do it; maybe they will and maybe they won't, but we make our promise to you that we're going to continue to do this. We think that what this budget contains are reasonable recommendations and a reasonable assessments of the current status of the VA budget.

There are methods in which the VA can operate more cost-effectively and efficiently; however, this doesn't mean that less money and personnel are required to fulfill the mandated obligations of the Veterans' Administration.

You know, Mr. Chairman, about a year ago I was in here talking about the budget and talking about how nobody can realistically cut anything from anything unless they know first of all what they've got. You were kind enough, through the committee, to ask the Administrator of Veterans' Affairs how many nurses he was short. The answer that came back to this committee was that they weren't short any nurses at all; it was just a case that they had too many nurses in one place and not enough nurses in another. Nobody believed that at all. So a few months later it finally came down to the fact—and the Veterans' Administration testified before both the House and the Senate less than a year ago—that they were indeed 32.5 nurses short in the system. They had done an extensive check and they had found out.

What has happened since then? Just the other day I dealt with a phone call—as an example of the problems in the VA—of a combat service-connected World War II veteran, 100 percent disabled, who had been scheduled for surgery to remove a cancerous bladder. He checked into the hospital on the appointed date and time to begin his pre-op, and halfway into it was told to go home, that they were short a few nurses and he ought to go home and come back again in a few weeks.

That veteran constitutes absolutely, undeniably, the highest priority level of care in the Veterans' Administration system by anybody's determination. And we send a combat service-connected disabled veteran with a cancerous bladder that medicine says has to be removed, home for "a few weeks.

If we've come to that point, how can we call this a health care system? How can anybody have the sheer, simple audacity to come in here and say that the budget that they submitted was enough?

Enough? That's ridiculous in my mind.

Mr. Chairman, the rest of the things I have to say probably shouldn't be said in mixed company, about some of the statements that you heard here yesterday. Therefore I'm going to close right now, and I'll take the questions, sir.

[The prepared statement of Mr. Powell appears on p. 267.]

The CHAIRMAN. Thank you, Jack.

Since you talked about medical care, the Administrator, under calm questioning by Joe Kennedy——

[Laughter.]

Mr. POWELL. I heard, sir.

The CHAIRMAN [Continuing]. The Administrator said that he didn't know of any names of people being turned away. If you have the names to give to him—do you have names of those being turned away as outpatients? Do you know of any? If you do, I certainly think you ought to give them to this committee or give them to the Administrator. We want to be fair; if he wants information and we've got it, let's give it to him.

Mr. POWELL. Thank you, sir.

Let me say a couple of things. One, I don't know of any names. The fact is that by the time a veteran gets to a service officer of one of these organizations, or by the time the phone call gets to me as in the case of this fellow I was just talking about from New York, something gets done. We are able to do it.

The people who fall through the cracks, are the tens of thousands of veterans who don't get to a veterans' service organization service officer or don't get to the executive director of a veterans' organization or to a Congressman or to the Administrator of Veterans' Affairs. We conducted, in the process of putting together the independent budget, a survey of 21 VA Medical Centers. We talked either to the Chiefs of Staff or the Hospital Directors and asked them a specific list of questions. I would like to share a few of those findings with you.

Two-thirds of those Medical Centers surveyed admitted they were formerly restricting and denying outpatient services to veterans under the eligibility criteria to obviate the need for inpatient care. These veterans, who would otherwise have been entitled to inpatient care as category A and, in most cases were medically indigent veterans, do not have clear entitlement for outpatient services; but when they do under "obviate the need", the VA is denying that care. Some Medical Center Directors indicated that the only time a category A non-service-connected veteran could receive outpatient services was if he or she was in an acute emergency condition.

They also said that budget cuts forced them to deny or delay treatment. They gave examples: Closure of bed units or de facto restriction of the number of patients treated in some units due to staffing shortages; denial of care because whole wards have been closed due to a lack of staff; long delays in surgery due to lack of operating room staff or equipment or no intensive care staff; denial of certain necessary elective but expensive surgery, such as hip replacements, due just to the lack of the money to buy the materials; inordinate delays in the provision of vital but expensive prostheses due to costs; denial of nursing home care due to extraordinarily long waiting lists.

Mr. Chairman, I heard that the Administrator said here yesterday that this budget was sufficient because he had hospitals that are only 60 to 65 percent occupied. Mr. Chairman, you couldn't admit veterans to those empty beds because there is a charade that has been perpetrated on the veteran and on this Congress and on the taxpayers of this country for several years consistently running. That charade is to hold staff down so low that you couldn't possibly, in all good human decency, admit a patient to that bed because you don't have the staff to care for him. Then you can say that you have a bed but no patient. Why not build the hospital on the moon and you don't have to worry about funding it or staffing it at all? Nobody can get there.

The CHAIRMAN. We can't get to the moon anymore.

[Laughter.]

The CHAIRMAN. That's good, and I'm sure my colleagues will follow up on what you said, Jack.

Mr. Woosley, we're ready for you.

STATEMENT OF NOEL C. WOOSLEY, NATIONAL SERVICE DIRECTOR, AMVETS

Mr. WOOSLEY. Thank you, Mr. Chairman and Members of the committee. AMVETS is pleased to present our views on the Administration's proposed budget for the Veterans' Administration for fiscal year 1989, as well as the independent budget prepared by the organizations seated at the table.

I will not be reading from my prepared statement, of which you have copies, but I do ask that it be considered as part of the record.

The CHAIRMAN. Without objection.

Mr. WOOSLEY. As time is a commodity that we have little of, I shall endeavor to make my comments short and to the point.

We here today have witnessed continuing staffing cuts within the Department of Veterans' Benefits over the last several years. We hear time and time again that these cuts will be offset by reduced caseloads, productivity initiatives, improved automation, etc., etc. I would like to take this opportunity to state that it's just not happening. What is happening is that the current average caseload of the vocational rehabilitation specialist is between 175 and 185 cases, depending on who you talk to. When asked, the VA department heads of this program stated that an acceptable average caseload was between 100 and 125.

Fact: Because of reduced staffing levels within DVB, they are unable to replace those who leave or who, because of increased workloads in another section, are transferred. Thus you now have a Senior Benefits Counselor performing the duties of a GS-3 receptionist.

Fact: Senior Adjudicators are performing the duties of file clerks.

Fact: DVB's travel budget for local travel has been reduced to a level that makes it impossible for the field staff to be effective.

These are just a few examples of the chaos which exists in DVB due to inadequate staffing.

I would like to take a moment to speak about the readjustment counseling service. This program has been scrutinized, attacked, reviewed, put under the microscope; and yet, budget-wise, it has more bang for the buck than any program that VA has come up or that the Congress has allowed them to come up with lately. I have some recently-released statistical data from the Readjustment Counseling Service. In fiscal year 1987, the veterans' centers had some 600,000 veteran visits and were able to perform cumulatively, since the program's inception, over 3,256,973 counseling services.

Now, where are these people going to go when this program is reduced?

Mr. Powell stole a little of my thunder because when I was here yesterday and heard about the empty beds, it crawled up my spine. If you close a wing of a hospital because you don't have staffing, you sure as hell are going to have empty beds.

AMVETS feels sure that if this committee reviews the independent budget proposal which we are proud to be affiliated with, you will be able to take action to correct these deficiencies which create an undue hardship on the Nation's veterans.

This concludes my brief statement, and I will be available for any questions you may have, Mr. Chairman.

[The prepared statement of Mr. Woosley appears on p. 271.]

The CHAIRMAN. Thank you very much. You certainly did well.

You know, you've pointed out some of these problems to us. We want you veterans' organizations to move out and raise some cain like you've done this morning. You've really got more clout than we have out here. You know the people in your organizations; we work for the people. So when you've got these problems, stir it up and that will get some things done.

Okay. We'll start with you, Jerry.

Mr. SOLOMON. Mr. Chairman, I don't have any questions because my questions have all been answered in this report.

You did an excellent job on your presentation, both in your written presentation and what you had to say. We really appreciate it.

Mr. Chairman, I'm going to have to leave very shortly, too. We have a very important emergency meeting coming up on the Contra vote and I have to get over there. I'll be gone for about 20 minutes. I hope that this meeting may still be going on, but for those of you that may be testifying afterwards, I apologize. That's a very important issue, too.

So I will pass at this point to other Members. Thank you very much for your testimony.

Mr. APPLEGATE [Presiding]. It's nice to take over the Chair from my very distinguished Chairman, Sonny Montgomery.

I just wanted to mention, too, Mr. Woosley, that your national commander is James King. Ironically enough, the new national commander of World War I veterans is James King. I've been working with the World War I veterans preparing some legislation to help them in their efforts to get an increase in their pension.

But I want to congratulate all of you for a very outstanding, sound, equitable budget proposal. I concur in the strength of the remarks that you made because I think that they're right on target.

As I told the Administrator yesterday, I don't believe that the President's budget reflects a concern that the Veterans' Administration be able to meet its obligations in providing benefits and health care for our veterans. Rather, it once again places the VA in the unenviable position of trying to serve veterans with less resources than the year before, and it simply doesn't make sense. You can't do it.

I share your view that a reduction of 492 full-time employees in the Department of Veterans' Benefits would only further aggravate an already-unacceptable situation that we have seen develop in the department's ability to process claims in a timely fashion.

I have stated on numerous occasions that this committee will not accept wholesale cuts in the DVB staffing level; certainly, not as long as the timeliness in claims processing continues to fall. I can assure you that my subcommittee will be looking closely at the VA claims process with special regard to staffing levels and the DVB modernization initiative.

As to the independent budget that you have submitted, I wholeheartedly agree with you that there is a tremendous need for additional resources that would allow for much-needed training of those who are adjudicating the veterans' claims. I would also agree that modernization of the VA's data processing capabilities will be critical to the agency's future ability to meet its responsibility.

I think as stated yesterday by my good friend Jerry Solomon and Sonny and a lot of others, we are not going to sit here and approve a veterans' budget as proposed by the Administration that is going to cut $370 million in veterans' medical services and construction, and up to $25 million in the DVB services and in the modernization initiative, the needed modernization of those programs in order to help to develop a better quality. We're just talking about the current—and I think you brought that up—just meeting current needs. We're not talking about anything in the out years and the necessary improvements in order to increase it make it better because, as Jerry Solomon has pointed out many times, we have these large numbers—more—coming into the system that are going to have to be serviced. There is a tremendous need.

In the area of AIDS research—AIDS research is one where we feel that the veterans' hospitals and medical service is in such a position as to be able to—and should be—to further the research in AIDS. Right now there are 3,000 AIDS patients in the veterans' hospitals, and the worst part of that is that they're coming in at the rate of 200 per month. You can see how that is going to add up, and it seems ridiculous to me that if the Administration is going to spend well over a billion dollars, that they should put the money where the research has been ongoing. But they can't continue to do it unless they have the money. We can't continue to provide the hospital services if they're going to cut the services.

Further, you recommend a 4.5 percent COLA as opposed to the Administration's 4.2 percent COLA. I'm telling you that I'm having legislation drafted to adopt the 4.5 percent COLA. We'll be holding hearings on that in the near future, and I'm sure that we will be able to push that out of the committee. We'll wait and see what ultimately happens and we'll try to arrive at a reasonable figure.

I just had a couple things that I wanted to ask you. One of them was, you were talking about a second Regional Office down in Florida, and I think that was a recommendation that was thrown out. If you have any kind of an estimate of that cost and where you think it would be located——

Mr. Brown. Mr. Chairman, we did not propose any appropriations for that particular initiative. We felt that it would be in the planning stage to determine exactly the feasibility of such a project, and we would think that it probably should be up in the northern portion of Florida.

Mr. **Applegate**. The Jacksonville area, you mean?

Mr. **Brown**. Somewhere in that area, yes.

Mr. **Applegate**. Also, I think you know that the President's budget recommendation contains no long-term funding for the DVB modernization project which we talked about, and requests only a small amount to cover certain fixed operating costs. Last year we were told that the initiative would be completed by 1991. Would any of you like to comment on this? I know you have made some comments, but Jack Powell is champing at the bit there to answer that.

Mr. **Powell**. Mr. Applegate, this is just another example of no relationship between the reality of a commitment of service to veterans and the numerical plan for delivering that service which is known in business as a budget.

Just a little over a week ago there was an article in a newspaper condemning a VA employee for having solicited from one of the veterans' service organizations $11,000 worth of computer hardware and software in order to do his job. The article contained no accusation that this had been used for personal gain, but that it had been used for his job.

Now, if the Chief of Compensation and Pension has to commit an improper act—and I don't know if it was proper or improper; I'm just going on the basis of the allegation—to go out and solicit a lousy $11,000 worth of computer equipment to run the section of Compensation and Pension that is distributing $14 billion a year to veterans, and then, we turn around one week later and see a budget that doesn't have a dime in it for computerization of that very same Compensation and Pension section—something here is wrong, or else we've stepped into the twilight zone or somebody else just stepped out of it.

Mr. **Brown**. Mr. Chairman, I would also like to make a comment on that.

As you know, the Veterans' Administration, at least in spirit, is committed to the acceleration of the ADP program. It is still in its infant stage, that is the planning stage, and we were very perplexed to find that within their proposed budget that they had actually reduced the people that they need to do the planning by seven FTEE's, and we simply cannot understand that, especially since—as you have mentioned—it is going to be a vital part of their ability to perform efficiently in the future. So we just simply cannot understand why they chose to take that approach.

Mr. **Applegate**. Yes. I thank you for that, because I know I stated yesterday that the processing of claims has declined since 1982 by 25 percent instead of getting better. I don't think that's reasonable at all; in fact, I think it stinks and it needs to be cured. The only way you can do it is by modernization. We have to live with the rest of the world. We have to compete. I think we should use the most modern techniques.

I thank you very much.

Marcy?

Miss **Kaptur**. Thank you, Mr. Chairman.

I wanted to ask Mr. Magill a question on the whole issue of national cemeteries and the policy that you've outlined. As Chair of the Subcommittee on Housing and Memorial Affairs we have not held extensive hearings on this whole issue of where we go with the National Cemetery System, but I wanted to ask you a question asked of me by many veterans in Ohio, a big State. No matter where you locate the cemetery, the other three-quarters of the State isn't going to be happy.

I have had a request from some of my veterans to try to see if we couldn't work with the cemetery associations to have veterans buried near where their families are and to set aside special places in existing cemeteries that may be public or private.

I just wanted your reaction to that. I have a feeling what it's going to be. We have a problem in the larger States of making everyone happy with the selection of a site. How do you deal with your Membership on that? I have families in my area of Toledo, for example—if we were to locate the cemetery in Columbus or in Cleveland, they say, "Why can't our father be buried here in Toledo, in an existing cemetery near the family?" What do you say to that, sir?

Mr. MAGILL. Well, that's a tough one, I have to admit it, because of course when you have a Member of the family pass away, of course you want to be able to have the gravesite as close as possible. And unfortunately when you're dealing with a whole State and the VA being asked to place a cemetery, of course you can't get close to everybody.

There is the possibility—and we have been telling our Members of Veterans of Foreign Wars—that in some cases where you do have a private cemetery, that there is a section of it that has been fenced off, that is exclusively for the burial of veterans.

Miss KAPTUR. If you bury the veteran there, can his wife be next to him in those kind of areas, or not?

Mr. MAGILL. I'd have to check on that, and I can get back to you on that. I would——

Miss KAPTUR. This is a very sensitive and emotional question for a lot of people.

Mr. MAGILL. If you don't mind, just to make sure I come up with the right answer, my first indication would be yes, that I think they would be just as they would be in a regular national cemetery. But I really would like to be able to pin that one down to make sure.

Miss KAPTUR. I guess what I'm really looking for is different options, and we'll certainly call you for testimony on this subject.

Mr. MAGILL. If I may add, I was mentioning the private cemeteries. There is probably a good possibility that each individual one may have different restrictions as pertaining to the space that is available.

Miss KAPTUR. The policy issue for us as a subcommittee is that we've had this policy of the VA, that we would have cemeteries in all of the regions. Now we have those and, for example, the one that is in my region is located in the State of Michigan. Very few Ohio veterans are buried there; it's too far away——

Mr. MAGILL. Exactly. That's what the problem is. The regionalization thing, in our opinion, just has not worked.

Miss KAPTUR. It hasn't worked.

Mr. MAGILL. It hasn't worked at all.

Miss KAPTUR. There is all this capacity in those regional cemeteries, and now we're being asked to look at State cemeteries. When I talk to the veterans in Ohio, if you're in the winning city that gets the cemetery, you're happy. But if you're in the other parts of the State, you're unhappy. I don't know about the smaller States, whether they're happy with the regional cemetery system. I guess if you live in Delaware everybody can access a cemetery that would be located in Delaware.

[Laughter.]

Miss KAPTUR. But in California or Ohio or Michigan, it's very hard to keep people happy on this. Also, the families get very frustrated because, they say, "We can't drive to see our relative; it's two or three hours away."

So I guess I'm looking for a set of alternatives that would make the majority happy.

Mr. MAGILL. If I may add, in the preparation of the independent budget we have made recommendations and we will be asking that the Congress review it, that there would be an open national cemetery in every State. Again, as you commented, as far as Veterans' Administration is concerned, there would be a minimum of one in each State, so that would eliminate the regionalization aspect where people from Ohio would not have to travel out of State to visit a gravesite on Veterans' Day, Memorial Day, birthdays, anniversaries. We think it's extremely bad. You may not be able to just drive down the block, but certainly staying within the State is a step in the right direction.

Miss KAPTUR. Thank you very much.

Did anyone else want to comment on that one? My time has expired.

[No response.]

Miss KAPTUR. Thank you.

Thank you, Mr. Chairman.

Mr. APPLEGATE. Thank you, Marcy.

At this time we would like to recognize Mr. Kennedy of Massachusetts.

Mr. KENNEDY. Thank you, Mr. Chairman.

First of all, I'd just like to commend each one of you and your organizations for coming up with an alternative budget. I think after yesterday it is clear that there is a need for an alternative budget put forward by advocates of our Nation's veterans.

One of the things in this committee is that there are so many issues that we're supposed to be on top of, Marcy just bringing up whether we should be fencing off particular parts of cemeteries and the like. It seems to me that Jack Powell went through a pretty good list of some of the major problems facing the entire VA: The addition of the merchant marine from World War II; the older veteran population that is getting older every day; no real increase in inflation budgets for the VA, particularly with regard to health care issues; the whole problem of AIDS and the number of patients now being taken on by the VA. I thought it was confusing yesterday when they said it was only $3.5 million to treat 2,100 AIDS patients. I don't see how that's possible, considering what the rest of the Congress is looking at in terms of the cost of an AIDS patient.

The whole issue of homeless veterans—you know, I serve on that Housing Subcommittee. We hear from homeless veterans all the time. We heard from a woman, a Vietnam veteran, just before Christmas who is working two jobs in the Washington area and still is homeless because she can't pay the rent. She has a family.

You've hit on the issue of the high cost of high tech equipment and whether or not that is the route to go. The issue of nursing homes and, obviously, the whole problem of atomic and chemically-exposed veterans—it just seems that when you really look at the bottom line in your budget you're still talking about a budget that I think is about $400 million more than the VA itself came in with, and I just wonder if each one of you would mind taking about two minutes or a minute and just giving us your sense of where we ought to be really trying to cut back. Their information is that they're going to increase productivity by 2 percent and come up with all of the offset; I don't believe it for a second, but I think that it would be helpful—at least to me—to just understand your priorities, where you want us to be concentrating on trying to get the VA to focus in on changes.

Mr. Woosley, maybe you can start and we'll just go down the line.

Mr. **Woosley**. Well, by asking me—I'm a little biased. I'm an old veterans' benefits counselor; DVB is my home.

The things that our organization are worried about are across the board, of course; health care, homes, the things you mentioned. The elderly veteran really concerns us because a lot of our constituents are becoming elderly.

When we put the budget together I felt like we had to be frugal and realistic so that it wouldn't be laughed at, and I don't think that as a veterans' advocate you could ask for too much. I'm not sure, but I feel that they deserve a lot more.

Mr. **Kennedy**. I'm not asking you to reprioritize the entire budget. What I am asking you to do is just list briefly the areas that you'd like us to concentrate on. You're most interested in——

Mr. **Woosley**. Staffing DVB so that we can get the checks out and the telephone calls answered.

Mr. **Kennedy**. That's basically in the Regional Offices, the 495 jobs being lost in the Regional Offices?

Mr. **Woosley**. Exactly. And I think you pointed out yesterday that if they're 400 short now, we're talking about a thousand people.

Mr. **Kennedy**. Thank you.

Mr. Powell?

Mr. **Powell**. Thank you, sir. Certainly, we always have an issue of health care. What we're greatly concerned about, as we testified here a year ago, the reporting instrument for the means test does not clearly give an answer to whether all veterans who apply for health care are getting it or not. There are too many loopholes.

We have made a recommendation in this year's independent budget that this Congress consider the conduct of an in-depth study on the unmet demand for care. We think it is an ongoing question. Folks come before you all and say, "Well, nobody can tell me the name of the veteran who doesn't come in." How many people know the names of those veterans on the street? Not many; they're not liable to call you or me. They can't even get into the VA without showing identification, and that's what I don't understand.

The other thing is—and I don't know how you do this—but the people who proposed this budget, and I understand they are under some constraints from OMB, live in a building that says, "To care for him who shall have borne the battle"—this budget wasn't even begun with that attitude in mind. Maybe if we could start from that standpoint of what the veteran's needs are, that would answer some of our questions in health care, in DVB, in housing, and in memorial affairs.

Mr. KENNEDY. Thank you, Jack. Good statement.

Go ahead.

Mr. MAGILL. Again, I would have to align my remarks to Jack, and that would be health care. We've heard about the closing of wards, the closing of beds.

There are many ways to deny health care. It's not just a veteran going up to be admitted and saying, no, we don't have it. He can be denied health care by going to the hospital, having the admitting doctor—under pressure to keep the census down—say, "You don't need to be admitted so we'll just treat you here and send you home." That is a form of denying health care. We think the VA should be in a position where that would not happen, and also we think the VA is going to have to prepare for the future. We all know that the aging veteran population—in the year 2000, I think they're talking about—the VA has got to be competitive with the private sector in recruiting and maintaining health care professionals and support staff.

So maybe I went on a little bit longer than you wanted me to, but they've got a job to do out there and they've got to change. They're going to have to face up to it.

Mr. BROWN. Like Mr. Woosley, I'm a national service officer and have been in that business for 20 years. I believe in the integrity of the program. I believe in making sure that the individual that was wounded or diseased concurrent with his active service receives timely, quality, and compassionate service.

DVB received a cut of 492 FTEE's and 248 of those individuals came right out of the C&P account. This, in my view, is devastating to the adjudication process. Today it takes an individual who has disagreement with the Veterans' Administration over 400 days for that case ultimately to be decided by the Board of Veterans' Appeals. In the late 1970's it only took 300 days, and we don't think that's unreasonable.

We feel that an effort should be made to bring this madness back into a reasonably tolerant standard.

Another thing we're concerned about is the impact these cuts will have in the timeliness standard. For instance, in the late 1970's the Veterans' Administration had a general rule that they should complete 75 percent of compensation cases within the first 90 days. Today, they are completing 31 percent within 90 days. If you look behind the figures you will find that they have 25 percent of those cases pending after six months, and I would think that with the additional cuts that the C&P service has to absorb, we would expect that there would be a continuing deterioration in the quality and timeliness.

Mr. GORMAN. If I may just add, Mr. Kennedy, I think Jesse has adequately stated our concerns as far as the DVB portion, that side of the house.

With reference to the aging veterans, as I think we've all mentioned—and Mr. Magill mentioned being competitive with the private sector—I think I'd agree with that in a sense, but I also think the VA certainly has to be compared or parallel to the private sector health care system.

In that respect, I think you'll find a lot of alternatives in our independent budget as far as furnishing alternatives to institutionalized care for long-term care and for health care services.

The VA currently operates a number of programs, and what I think we're asking for is meaningful expansion of those. I think that serves a lot of purposes. I think it keeps some of the people out of expensive inpatient care and also provides for the treatment they need.

The other thing I'd like to mention, as far as the computerization of the VA—I know that we're basically talking, it seems, about two different systems here, the DHCP on the medical side and the DVB initiative in modernization—I think it's real important that the VA consider two points, that they should mesh at some point in time where they can talk to each other, and also that the VA be very careful in not arbitrarily reducing employees in the hope of sometime in the future gaining additional modernization capabilities. As Jesse said, you have to have the people there to plan it and get it up and running and then see what happens.

Mr. KENNEDY. Well, I think from my own point of view it's tremendously helpful to have you folks, who are really on the front lines, be able to keep us on compass course. I would particularly welcome it, if you felt it was possible, for you to put down in writing just a "quick and dirty" sheet on what your priorities are so that when we have representatives from the VA we are really asking the questions that you're concerned about and that the people that you represent are worried about.

Thank you for your time. I appreciate it.

Mr. EVANS [Presiding]. You know, I want to congratulate you for the independent budget that you submitted. I think we can resist some of these cuts in the DVB, but I will be holding hearings at some time, Mr. Brown, on the timeliness issue in my Subcommittee on Oversight and Investigations, so we will be in contact with you as we set those hearings up.

In the interests of time I am going to yield to the gentlewoman from South Carolina for any questions that she may have.

Mrs. PATTERSON. Thank you, Mr. Chairman.

First of all, let me apologize for being late; like everybody else, I had another meeting this morning.

I would just like to thank you gentlemen for coming and giving us an alternative to what we heard yesterday. I look forward to working with you on your budget.

No questions at this time.

Mr. EVANS. Thank you very much.

I do have some questions but I will submit them in writing. We are planning to have an 11 o'clock floor vote, so I'd like to get the next panel up here and maybe have them testify before we have to break.

I want to thank you for testifying.

[The questions and the answers thereto appear on p. 337.]

Mr. **Evans**. We would now like to call the next panel: The American Legion, represented by Mr. E. Philip Riggin, Director, National Legislative Commission and Mr. John F. Sommer, Director, National Veterans' Affairs and Rehabilitation Commission; The Non Commissioned Officers Association of the United States, represented by Mr. Richard W. Johnson, Jr.; Vietnam Veterans of America, represented by Thomas Sherwood and Paul Egan. If they would all come forward now.

In the interests of time, of course, we always ask you to summarize your written statements if possible. If you could even make them a little shorter today it would be useful because I may be the only person here at the time that the vote goes and I'll have to leave by the 10-minute time period.

So we will start with Mr. Riggin and the American Legion.

Mr. **Riggin**. Thank you, Mr. Chairman. We do appreciate the opportunity to be here. As you mentioned, with me is John Sommer, our Veterans' Affairs and Rehabilitation Director. John is prepared to summarize his statement and both of us will be available to answer any questions you may have, Mr. Chairman.

Mr. **Evans**. Thank you.

STATEMENT OF JOHN F. SOMMER, DIRECTOR, NATIONAL VETERANS' AFFAIRS AND REHABILITATION COMMISSION, THE AMERICAN LEGION; ACCOMPANIED BY E. PHILIP RIGGIN, DIRECTOR, NATIONAL LEGISLATIVE COMMISSION

Mr. **Sommer**. Thank you, Mr. Chairman.

Beginning with addressing the legislative initiatives that were in the budget just briefly, the American Legion is opposed to indexing compensation and dependency indemnity compensation increases for two reasons, the first being that we feel that the Congress has been generous over the years in providing these COLA's in the benefits, but an equally important reason is that the hearings at which the legislation for these increases is considered also provide a forum at which we can discuss technical issues relating to the compensation provisions with respect to issues such as additional presumptions for service connections, special monthly compensations, these types of issues.

Our position is that the cost of living adjustments in these important benefits should at least be consistent with increases in the consumer price index.

We are opposed to changing the eligibility for the plot allowance and repealing the authority for education loans.

We support the assumption by the Veterans' Administration of the Veterans' Mortgage Life Insurance Program.

We strongly support the expansion of authority allowing tuition reimbursement to nurses for degree-related courses. Much needs to be done in this area with respect to salaries and fringe benefits for the purpose of recruiting and retaining nurses in the medical care system.

The Department of Veterans' Benefits—the proposed budget, as previously mentioned, calls for a decrease in average employment of 492 FTEE's. This includes losses of 248 in Compensation, Pensions and Education; 73 in Veterans' Assistance Service; 75 in Loan Guaranty, and 11 in Vocational Rehabilitation and Counseling Service.

We state year after year that the constant personnel losses are causing innumerable problems in the Regional Offices and are adversely impacting on the quality and the timeliness of the delivery of benefits and services to veterans. For some reason, little attention is being focused on the impact that these constant staffing reductions is causing. Among myriad negative factors, OMB continues to chip away at the employment level of the Department of Veterans' Benefits.

The American Legion recommends a restoration of funding at least for the 248 personnel in Compensation, Pensions, and Education Service.

With respect to the Department of Medicine and Surgery, the proposed budget calls for personnel losses of 4,270 FTEE's. We adamantly oppose any further reductions of health care professionals in the VA medical care system. OMB continues to promote schemes, such as the 1 percent productivity reduction which I don't think we'll ever understand, at a time when the Department of Medicine and Surgery is suffering severe shortages in nurses especially, and also in other critical health care professions.

Further reductions in staffing will no doubt result in irreparable damage to the VA medical care system and erosion of the quality of medical care provided to veterans.

We are also strictly opposed to the decrease of $4.7 million and the 79 FTEE's in the Vet Center Program.

Under medical construction, it concerns us that there is only one replacement hospital projected for fiscal year 1989, and that there is a proposed decrease of $62.3 million from the current year replacement and modernization account.

There is a need to reiterate our concern also that the VA must expand its independent nursing home care unit construction. The proposed 120-bed nursing home addition at Tampa, while badly needed, will only put a dent in the demand for this level of care in that State, and that's not to mention the great need for additional nursing beds in other parts of the country.

Mr. Chairman, that concludes our summary.

[The prepared statement of the American Legion appears on p. 277.]

Mr. Evans. Thank you very much. I appreciate your keeping it as brief as possible.

Mr. Johnson?

STATEMENT OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES

Mr. Johnson. Thank you, Mr. Chairman. I, too, will attempt to be brief.

There seems to be a consensus among the committee and the veterans' organization representatives that this is generally an inadequate budget proposal. And, of course, we concur in that assessment. Most missing from this proposal is future planning. You cannot enter into the next decade with any preparedness for the medical care needs of veterans, for the needs and care of aging veterans, by proposing the construction of only one 120-bed nursing home in 1989. The need clearly demonstrated now is for 3,500 beds, yet this Administration has come forward with one nursing home with 120 beds.

No new cemeteries. Right now, only 34 percent of all veterans live within 50 miles of a national cemetery, with 50 miles deemed as "reasonable access," but they have proposed no new cemetery construction.

As a matter of fact, construction is down across the board in the VA budget. This is truly a one-year bill. It is truly nothing more than a maintenance proposal to carry the Veterans' Administration through the last year of the Reagan Administration without any consideration for the needs of veterans in the 1990's.

Rather than sit here and repeat the myriad details about staffing and about programs which concern us all, I would like to focus on just a few things that we think could be done, a few things that we think have been overlooked in prior testimony.

Expansion of the cemetery system is one of those issues which concerns us the most. In the next 10 years, 21 of 65 currently-operating VA cemeteries are going to close. With the closure of those cemeteries, less than 30 percent of veterans will have access within a 50-mile radius to burial in a national cemetery. However, in testimony last year it was established that by building 10 cemeteries to augment the regional cemetery concept in major population centers, that we could carry into the year 2000 some 70 percent of veterans being within 50 miles of a national cemetery. Now is the time to start construction and land acquisition and planning and site preparation for the acquisition of at least those 10 cemeteries recommended last year.

There is room for improvement in education programs.

We have not adjusted benefits under the vocational rehabilitation program or under the Chapter 34 program since October of 1984, yet we still have many, many veterans who benefit from these programs, and they need attention. They need a tremendous amount of attention, quite frankly.

There is also room for improvement in the Montgomery GI Bill. The Montgomery GI Bill, of course, the new program, is highly successful, but it is still unconscionable to NCOA that we should accept money from people who cannot use the benefits of that program. I speak specifically of those who become disabled and become eligible for vocational rehabilitation or die while in service, and thus are deprived of the use of those education benefits.

We would also like to see some emphasis placed on improving benefits for those people who are in service, and for those people who are forced out of service prior to becoming eligible for the Montgomery GI Bill.

NCOA would particularly like to see the Veterans' Job Training Program extended at least through 1989 and funded again.

Our last area of concern and one that is probably our deepest is on the Loan Guaranty Program. This year the Administration is going to propose nearly a billion dollars, if not more than that, in new funding for Veterans' Administration Home Loan Guaranty Program. For years NCOA has argued that the only way to save the Loan Guaranty Program is to rebuild its portfolio of direct loans and vendee loans and allow the program to again benefit from living off the interest on those loans.

To show just how far the Veterans' Administration has diverged from that point of view, let me give you an example. In November of 1987, the Veterans' Administration sold $219.3 million in loans for a grand total of $220.5 million. The margin on that sale was 0.54 percent. The interest income on the loans was 0.79 percent. In other words, they sold $1.6 million in monthly income for a $1.2 million one-time profit, and it's no wonder that the program cannot survive on the basis of those kinds of sales.

With that, Mr. Chairman, I conclude my remarks and I thank you for the attention you have given me this morning.

[The prepared statement of Mr. Johnson appears on p. 290.]

Mr. EVANS. Thank you, Mr. Johnson.

Mr. Sherwood?

STATEMENT OF THOMAS A. SHERWOOD, DIRECTOR OF HEALTH POLICY AND PLANNING, VIETNAM VETERANS OF AMERICA; ACCOMPANIED BY PAUL S. EGAN, LEGISLATIVE DIRECTOR

Mr. SHERWOOD. Thank you, Mr. Chairman, for giving us the opportunity to speak with you.

The statement I have here, is that generally speaking the VVA believes that the amount of money that the VA requests is adequate to fill its mission. The question, of course, is what is the mission that it serves?

We clearly have a problem with that. We don't think that that is at all elaborated in the VA's current budgetary obligations or requests.

We have looked at and worked with the VA on lots of programs throughout the years, and we have seen some improvement in some of the programs. However, there are some real general problems. Clearly, the problem with the Readjustment Counseling Program really stands in front of us. They want to cut this program by $4.7 million; in addition to that—the way it is phrased, at least—79 FTEE's, and there is a potential for a $5 million contract that VA carries on in that program also being cut, which means in effect that we'll be going from something like $41 million to approximately $28 million. Clearly, the intent is to gut this program.

One wonders about the VA's priorities in terms of a program that has been extremely successful—that is, the Vietnam Readjustment Counseling Program—and one also wonders in terms of the citation; that is, the reasons that they are going to cut the program, having to do with priorities with respect to programs for senior veterans. What kind of message does that send to the veteran community? For instance, in terms of the Vietnam-era veterans that are taking advantage of the educational programs, there is a projected reduction for those that have been utilizing that program by 36,535, which probably translates into about $84.4 million. Why can't the money come from there with respect to the preservation of the Readjustment Counseling Program rather than trading it off against another very important clinical program?

We wonder about the almost mean spirited-nature of that sort of thing when there are clearly better options than gutting an important VA program that serves veterans.

We have a problem with the PTSD in-house program as well. There are many veterans that feel that we need additional PTSD in-house programs. The current 13 to 14 programs, which is about 444 beds, does not seem to be enough.

On the other hand, when one looks at the program the way it is organized and the way it achieves its priorities for delivery and its inconsistency with respect to length of stay for different programs throughout the VA, one wonders if they know what they are doing with regard to the PTSD program, what their agenda is, and what they wish to achieve with their program. It is, in effect, in organizational disarray.

We strongly urge the VA to investigate the need for more PTSD programs, however, as soon as possible and come up with a more organized strategy of delivery of those kinds of services.

We still have a problem with respect to mental health delivery. It has been pointed out by authorities, perhaps 44 percent of all the beds in the VA are used by mental health clients in the system, while only 10 percent of the total resources of the VA health care budget goes to mental health. That does not seem to be a fair distribution of health care dollars in the system, given the reality of the needs of the mental health patient. That has been cited many, many times.

With respect to the outpatient strategy, again in the Readjustment Counseling Program, we notice that the Veterans' Administration still has an intent, in addition to trying to gut the program, to reintegrate those outreach programs into the medical hospital system when that clearly flies in the face of all current strategies with respect to mental health delivery in this country, which says to take clients, if possible, out of the institution and treat them in the community. Again, we really kind of wonder what the VA strategy is.

But perhaps the greatest concern is the issue pertaining to the resource allocation methodology which we have raised here before, the way the VA allocates costs in trying to assess the need for dollars in the medical health delivery system. We recognize, and we have before, that having the resource allocation system certainly is better than the previous system, and we certainly give credit for that. However, the Medical Center directors still have no sense of ownership of the system; have no sense that that system is really working for them and no sense that the system is something that they can control in terms of trying to manage their resources at the local level.

This, of course, gets to the real crux of the issue.

The fact of the matter is that the VA medical health delivery system in today's economy, in today's world, in today's medical health delivery system, is unamangeable. You cannot manage 172 hospitals, a medical health care delivery system of $10.9 billion from a single central policy level. This is no longer possible in today's reality. We must have a system where the Medical Center directors at those Centers create the resource allocation system from the bottom up, define their needs based on the criteria set up by the VA. This point of decentralized management will be expanded upon under separate cover to be added to this testimony with your permission.

Thank you very much.

[The prepared statement of Mr. Sherwood appears on p. 296.]

Mr. EVANS. Thank you.

We're having a call to vote. I just wanted to mention two quick things.

First of all, many Members will be submitting written questions to this panel because of the conflicting meetings that Members have had to attend. Unfortunately, we haven't had the attendance here in the latter part of the hearing that we might normally have.

Secondly, I do think that your characterization, Mr. Johnson, that this is a maintenance budget is essentially correct and that we need to start planning in almost every area of the VA on a more long-term basis because what we're going to confront, particularly with more elderly veterans, is just going to be something that will really impact, I think, not only on the Veterans' Administration but on the whole delivery of health care in this country. If the VA is not going to provide for it, who is in the long run?

So I agree with that characterization.

Mr. EVANS. One question. I've heard several witnesses today talk about the cuts in terms of personnel in the Veterans' Center program, what that would amount to; I guess it's 79. I've heard—and I don't know if this actually has been formalized by the committee—that that might mean that 15 Veterans' Centers nationwide would be closed down. Does anyone have an estimate? Is that a similar estimate to what you might have?

Mr. SOMMER. Mr. Chairman, that's the figure that we heard. That doesn't mean transferred into the Medical Centers; that means completely done away with.

[The information follows:]

As has been the case in recent years, the proposed FY 1989 budget for the Veterans' Administration calls for personnel cuts in the Department of Veterans Benefits and Medicine and Surgery.

If these cuts are enacted, the DVB will have been reduced by well over 6,000 FTEE since 1979, one-third of the claims processing/regional office operations workforce. Likewise, schemes such as the one percent productivity increase and other grand designs have led to a proposed decrease of 4,270 FTEE in the Department of Medicine and Surgery at a time when beds are being closed because of inadequate staffing. These reductions will undoubtedly lead to irreparable damage to the VA medical care system.

It seems quite apparently that administration budget planners continue to ignore the need for quality service in this people-oriented agency, or they simply don't believe that VA's mission is a national priority.

Mr. EVANS. All right. So let's say they would not be transferred, the personnel would not be available even as—let's say, just using my own example in the Quad City area of Illinois, about an hour and 20 minutes or so from the Iowa City Veterans' Medical Center. That Center would be closed down—of course, I'm going to fight to make sure it's not one of the 15, or that hopefully we'll protect all of them, but that would mean that there would not be any help in the Veterans' Medical Center in Iowa City for those groups of people that have had some assistance. The program would just be eliminated, according to your knowledge?

Mr. SOMMER. That's what I understand.

Mr. EVANS. Are there any other estimates on that? Is that the count that's commonly agreed to?

Mr. SHERWOOD. Yes. Roughly, if you look at a Veterans' Centers and their average staffing, it's somewhere between five and six FTEE. You're talking about 15 Veterans' Centers that would be absolutely closed.

Mr. EVANS. And of course it couldn't be that we would just appropriate these 79? We wouldn't just be taking one person from among the various Veterans' Centers; in fact, that would probably be detrimental to the delivery of service by that particular center if that would happen. But what we are hearing or what we understand is that it would mean 15 closings.

Mr. SHERWOOD. That's right. That has not been articulated that they would take one, for instance, FTEE from each of the Medical Centers, because that would mean basically the intent would be to keep all of them open. The intent is to close them and close as many as possible; to reduce by 79 FTEE's and close, in effect, at least 15 Centers.

Mr. EVANS. All right. Well, I thank you. I thank the panel. I'm going to have to conclude here to make that vote on the floor, but we will be submitting written questions. We do thank you for waiting and testifying today.

[The questions and the answers thereto appear on p. 337.]

Mr. EVANS. That concludes the hearing. Thank you all for attending.

[Whereupon, at 11:07 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

HONORABLE G. V. (SONNY) MONTGOMERY

HEARINGS ON PRESIDENT'S FY 1989 VA BUDGET

The Committee will be in order.

Today we begin our hearings on the Administration's proposed budget for the Veterans Administration for fiscal year 1989.

Our leadoff witness will be VA Administrator, Tom Turnage. Mr. Administrator, we welcome you and your staff and look forward to your testimony.

Last Friday, I mailed to all members a brief analysis of the President's proposed budget, which we received around 1:30 p.m. on February 18. I regret time would not allow for a more detailed analysis and review of the budget documents prior to the hearing. Since we must report our recommendations to the Budget Committee by March 8, we had to proceed with our hearings even though we would have liked more time to digest the budget.

The budget is very misleading. It proposes budget authority for the next fiscal year in excess of $30 billion - an apparent increase of $2 billion over budget authority in 1988. A closer look, however, reveals that about one-half of the increase would go to pay for the Administration's controversial credit reform legislation ($1.1 billion). The rest of this $2 billion difference is a result of understating the 1988 budget by over a billion dollars. In fact, in real terms, if you back out credit reform and factor in the supplementals required to get through the current fiscal year, the estimated budget authority for 1989 is $178 million lower than 1988.

I am very aware that the summit agreement on deficit reduction limits the discretionary budget authority to 2%.

However, the President's policy for this budget proposes increases in several higher priority programs while reducing or terminating others. I am certain that all of us on the Committee feel that veterans health care should have received some priority. The proposed medical care budget is $10.3 billion, an increase of 2% from last year. CBO estimates the inflation rate will be 4.5%. The projected medical inflation rate is expected to be 7%. This means the medical care budget is a deficit budget.

We believe it is short about $370 million of a VA-projected current services budget. The budget includes a proposed decrease of 2,439 employees. This staff reduction would occur despite VA-projected workload increases of 2,760 hospital admissions and 211,000 outpatient visits.

Even though we have an ever-increasing demand for nursing home care, only one new VA nursing home is proposed in this budget - a 120-bed unit in Tampa, Florida.

The Administration is requesting about $1.3 billion for AIDS, but none of the funds would go to the VA even though the agency is providing care for approximately 6% of all AIDS patients.

The budget proposes no funds for care of homeless veterans.

For the Department of Veterans Benefits, the situation gets worse. Even though adjudicators in most regional offices cannot meet current Central Office timeliness standards, the budget calls for a reduction of 492 FTEE - 248 staff in the regional offices.

Funds for DVB's long-awaited computer modernization program appears to have been dropped from the budget which means that veterans are going to experience even longer delays in getting timely responses from the agency.

Finally, the OMB policy of forcing the sale of VA home loans at great discounts and other decisions to reflect a brighter budget picture from one year to another has finally depleted the revolving fund. Even though there is a current need for a billion dollars, we understand that a supplemental may be forthcoming to tide things over for a few months with the hope that more cash sales can take place to make up the difference. If the supplemental is not passed before the end of March, chances are better than 50-50 that there will be no money to pay outstanding claims following foreclosures.

Our quick review of the budget, Mr. Administrator, tells us that things are not well. Maybe you and your staff can enlighten us or tell us that things aren't what they seem to be.

STATEMENT OF THE HONORABLE THOMAS K. TURNAGE
ADMINISTRATOR OF VETERANS AFFAIRS

FOR PRESENTATION BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
March 2, 1988

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you today to present the Veterans Administration (VA) FY 1989 request of $30.1 billion in new budget authority to fund medical, compensation, and other programs for the Nation's 27.5 million veterans, eligible members of their families, and survivors of deceased veterans.

Included in this amount is an appropriation request for $27.9 billion, a net of $1.5 billion related to proposed legislation and $694 million in permanent authorizations and offsetting receipts. The VA's FY 1989 request represents an increase of approximately $865 million above funds appropriated in FY 1988. Budget outlays for FY 1989 are estimated at $29.5 billion. Average employment (FTEE) is expected to decrease by 2,439 from the 1988 current estimate to a level of 219,830.

I would like to take this opportunity to assure you that sufficient resources are being requested in this budget to enable the Veterans Administration to meet its goals and objectives in 1989. Quality medical care for America's disabled and needy veterans is one of this administration's highest priorities.

The budget being requested provides ample resources to furnish care to all veterans expected to apply for, and be in need of, care. No-cost care will continue to be provided to all service-disabled veterans who request it, as well as to former prisoners of war, veterans exposed to toxic substances and radiation, and all lower and middle income veterans who apply. The level of patients seeking medical care in our facilities continues to increase. It is estimated that new highs of 1.2 million inpatients and 23 million outpatients will seek VA medical treatment. As indicated by the continuing drop in length of stay for inpatients, this growth in demand is being met by the introduction of new technology which increases productivity and improves the services provided by our medical personnel.

This budget request continues to support the Administration's efforts to improve administrative procedures and to increase efficiency. The FY 89 budget contains more than $21 million for three important efforts to strengthen the Agency's infrastructure. These initiatives are: Financial Management Systems (FMS), Personnel Accounting and Integrated Data (PAID) Redesign and the Integrated Supply Management System (ISMS).

I will now summarize the VA's FY 1989 request, highlighting the budget issues for each of the major accounts.

Compensation

The 1989 budget requests $10.7 billion, under existing law, to provide compensation payments to 2.2 million veterans and 323 thousand survivors. The 1989 funding request reflects the full year impact of the 4.2 percent compensation rate increase provided to all recipients effective December 1, 1987.

Legislation is being proposed to index compensation benefits to the annual change in the Consumer Price Index. Enactment of this proposal would guarantee that all compensation recipients are provided a full and timely cost-of-living adjustment. It is currently estimated that the first such "automatic" cost-of-living adjustment, effective December 1, 1988, will be 4.2 percent and cost approximately $361 million.

Pensions

The 1989 budget submission includes an appropriation request of $3.9 billion. This amount is needed to provide payments to 1.2 million eligible recipients. The 1989 caseload estimate is 68 thousand below the 1988 estimate. The caseload reduction reflects the recent trends in this program. Although it is anticipated that the number of veterans age 65 and older is expected to increase during this decade, improvements in retirement benefits as well as other income sources will result in the continued decline in pension caseload.

The 1989 budget request includes the full year impact of the 4.2 percent cost-of-living increase provided to Improved Law recipients in December 1987, as well as an estimated 4.2 percent cost-of-living adjustment which would be effective in December 1988. The cost-of-living adjustments to eligible pension recipients, by law, are based upon the actual change in the Consumer Price Index.

Burial Benefits and Miscellaneous Assistance

In 1989, an appropriation of $145 million is requested to support operations in the Burial Benefits and Miscellaneous Assistance appropriation.

Legislation is proposed authorizing the funding of the Veterans Mortgage Life Insurance (VMLI) program in the Veterans Insurance and Indemnities appropriation rather than the Burial Benefits and Miscellaneous Assistance appropriation. The funding of the Veterans Mortgage Life Insurance program is more appropriate under the Veterans Insurance and Indemnities appropriation which funds other insurance programs. This legislation would also permit the VA to administer this program, with an expected savings in administrative costs of $100,000 each year.

Readjustment Benefits

An appropriation of $598 million is requested in 1989 to operate the programs funded by the Readjustment Benefits appropriation. This funding level will provide benefits to 159,100 veterans training under the older G. I. Bill programs, as well as basic education benefits to 41,500 veterans under the new Montgomery G. I. Bill. The basic benefits under the new program will be enhanced with a $203 million transfer, primarily from the Department of Defense, which will be used to finance veterans' supplementary benefits and reservists' benefits, to be paid to an estimated 185,300 reservists. Education benefits under the older programs will also be provided to 38,300 dependents and vocational rehabilitation to 23,200 disabled veterans.

These programs are in a transition as eligibility for the new Montgomery G. I. Bill gradually replaces eligibility for the older programs. The trainee level under the older programs is estimated to be 38 thousand fewer in 1989 than in 1988 but the trainee level under the new program is expected to be 71 thousand higher.

Loan Guaranty

An appropriation of $658 million is requested in 1989 to support operations in the Loan Guaranty Revolving Fund. This appropriation request would fund nearly $3.7 billion in obligations estimated for 1989. It is projected that 232,600 loans totaling $17.9 billion will be guaranteed in 1989.

The 1989 budget proposes to continue the sale of the VA's portfolio loans. In 1988, $300 million of portfolio loans are planned for sale without recourse. The balance of the VA's portfolio loans, nearly $561 million, would also be sold without recourse in 1989.

Legislation is proposed to allow veterans to negotiate the interest rate on VA-guaranteed mortgages, providing maximum flexibility to veterans to structure the financing of their home purchases to best meet their needs.

The Administration is continuing to propose a Credit Reform initiative that explicitly recognizes the benefit, or grant, received by a borrower in obtaining a federal guaranty for repayment of the borrower's debt and thereby obtaining credit under more favorable terms than from the private sector. It is estimated that the subsidy, or grant, of $1.3 billion is associated with the guaranty of $17.9 billion in home loans in 1989. Enactment of these initiatives will have no impact on the veterans' ability to obtain guaranteed home loans from private lenders with no down payment.

General Operating Expenses

The budget request for General Operating Expenses (GOE) is $771.3 million and 17,494 average employment for the operations of the Department of Veterans Benefits, the Department of Memorial Affairs, and the various staff functions of our Central Office. This level will allow the VA to continue to provide quality service in a timely manner. The 1989 funding request reflects the full year impact of the 1988 costs related to a 2 percent pay raise for Federal personnel and the impact in fiscal year 1989 of a 2 percent pay raise in January 1989.

The GOE request also includes a proposal to remove restrictive fiscal 1988 appropriation's language that specifies funding and employment levels for the Department of Veterans Benefits, as well as restrictions on ADP expenditures. These changes are necessary for me to manage the resources of the VA most effectively.

The Department of Veterans Benefits (DVB) is requesting $503.3 million and 12,308 FTEE in 1989 which is a decrease of $5.2 million in new budget authority and 492 FTEE from our current estimate for 1988. Included in the DVB budget is $4.0 million for the first year of a two-year Loan Guaranty Property Management Pilot program. The test project will evaluate the feasibility and cost effectiveness of contracting out the acquisition, management and resale of a portion of the VA's property inventory. The request also includes funding for a toll-free telephone service, to enhance the quality and timeliness of the Department's insurance services. The toll-free service, to begin in 1988, will save 26 FTEE in 1989.

The Department of Memorial Affairs is requesting $47.4 million and 1,203 FTEE for the management of the national cemetery system for eligible veterans, active duty military personnel and their dependents. This is an increase of $299 thousand from the 1988 level; employment is the same. It is expected that total interments will increase by 2.5 percent and graves maintained will increase by 2.7 percent. The funding level requested will support the expected increase in workload and provide for the accomplishment of maintenance and repair projects in order to maintain the national cemeteries as a fitting tribute and memorial to our Nation's veterans.

The 1989 budget request for the General Administration activity is $220.7 million, an increase of $13.4 million above 1988. Average employment will decrease by 70 FTEE in 1989. Funding is requested for a number of ADP initiatives, including continuation of the Personnel Accounting and Integrated Data System (PAID) Redesign, development of a Financial Management System, conversion of the existing telecommunications network to the new Integrated Data Communications Utility (IDCU), and continuation of the phased equipment replacement program at the Austin DPC.

Additionally, for the first time since 1986, we are requesting new budget authority to revitalize the program of Grants for the Construction of State Veterans Cemeteries. We are requesting $9 million to allow at least ten interested States to receive matching grants for the establishment, expansion, or improvement of State veterans cemeteries.

Medical Care

The Veterans Administration is requesting $10.3 billion for the Medical Care appropriation in 1989, an increase of $208 million over 1988 with an average employment level of 192,358 FTEE. This proposed budget will provide quality care for all veterans who are expected to apply for and need care, including over 1.2 million inpatients and over 23 million outpatient visits.

The budget provides for the expected effects of inflation, for the funding and staffing requirements associated with opening new facilities, for increased payroll costs, and for several new and expanded initiatives such as the Decentralized Hospital Computer Program (DHCP); PAID; initiation of an Integrated Supply Management System (ISMS); enhancement of the Medical District Initiated Peer Review Organization (MEDIPRO) and increased funding support for the State and community nursing home programs, both of which are less costly than VA nursing homes. Legislation is also being proposed to expand the authority to allow tuition reimbursements to nurses for nursing degree-related courses and to increase the State home care per diem rates by 22.9 percent, to bring the VA share of these costs back to the 25 percent level that has been an historical benchmark.

Within the additional resources provided by the Congress and approved by the President in the 1988 appropriation, the VA can continue the Homeless Veterans Treatment Program established in 1987 by Congress (P.L. 100-6) and make additional resources available to medical centers for the treatment of AIDS patients.

Medical and Prosthetic Research

The 1989 request for Medical and Prosthetic Research is $204.2 million and 4,407 FTEE, an increase of $11.3 million and a decrease of 110 FTEE.

Funding is being requested for medical research in the areas of heart disease, schizophrenia, spinal cord injury, diabetes, cancer, aging, alcoholism, and a significant increase for AIDS as well as support for related problems of Vietnam-era veterans, former prisoners of war and female veterans.

Funding is also being requested to continue support for rehabilitation research in the priority areas of prosthetics/amputations, spinal cord injury, and sensory aids. Health services research would also be continued in management and service initiated areas.

Medical Administrative And Miscellaneous Operating Expenses (MAMOE)

The 1989 request for this program is $47.9 million, an increase of $1.3 million over 1988. Staffing would be held to the 1988 level of 595 FTEE. The Health Professional Scholarship Program would be funded at the same level as 1988, adjusted for inflation. Resources are also included for the establishment of an AIDS Program Office and for additional support to monitor activations projects.

Grants For Construction Of State Extended Care Facilities

The 1989 request for this program is $42 million, an increase of $1.7 million over 1988. This funding provides for 732 new nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects. These funds will allow the VA to continue shifting the mix of VA-sponsored care towards cost effective state nursing home alternatives, while expanding the total amount of nursing care available to veterans.

Construction

The 1989 request for the construction appropriations is $500.6 million. Of this amount, $367.8 million is for major projects at medical centers, regional offices and national cemeteries.

Major construction funds are proposed for fourteen sites, including four replacement and modernization projects -- two requests for construction funds for VA facilities at Atlanta, GA and Pittsburgh (Aspinwall Division), PA, and two requests for design funds in Indianapolis, IN and Newington, Conn -- as well as a nursing home care project at Tampa, FL. The budget request also includes funds for a domiciliary at Mountain Home, TN and for large clinical improvements projects at Beckley, WV, Nashville, TN, Perry Point, MD and San Antonio, TX.

Funding is also included for additional gravesite development at the Calverton National Cemetery and the relocation of the regional office at Montgomery, AL to the Medical Center grounds.

For minor construction, the 1989 request of $123.9 million represents an increase of $8 million over the FY 1988 funding level. The FY 1989 budget proposes that the ceiling for minor construction projects be increased from $2 to $3 million. Minor construction includes a General Administration limitation of $42.7 million.

In FY 1989, $9 million in new budget authority is being requested for the Parking Garage Revolving Fund to be used for the new parking garage that is planned for construction in connection with the Atlanta, Georgia clinical addition project.

Closing

Mr. Chairman, in closing, I am committed to the accomplishment of the VA's mission to provide veterans the care, support and recognition they have earned in service to this Nation. Our budget request reflects both this commitment to meeting the needs of our veterans as well as a concern for fiscal restraint. I appreciate the continued support and guidance of this Committee. This concludes my introductory statement. My staff and I will be pleased to discuss the details of this request and answer your questions and those of the Committee Members.

WELCOME

TO THE

VETERANS ADMINISTRATION'S

PRESENTATION OF THE

FY 1989 BUDGET

General

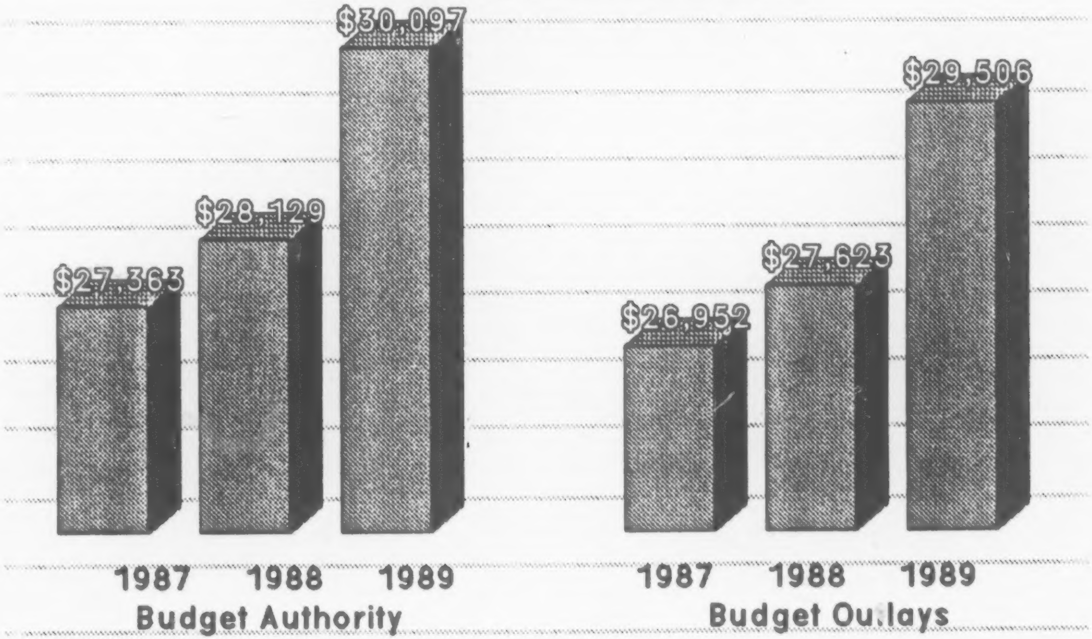
- The 1989 budget is consistent with the budget agreement between the Administration and Congress.

- The overriding concern governing the VA's budget has been to provide sufficient resources for the VA to meet its statutory and equity-based obligations for veterans benefits and health care.

- For the first time the budget year payraise is anticipated within the President's request. The budget funds the proposed 2 percent pay increase for FY 89 in each account at the absorption rate assumed in recent budgets.

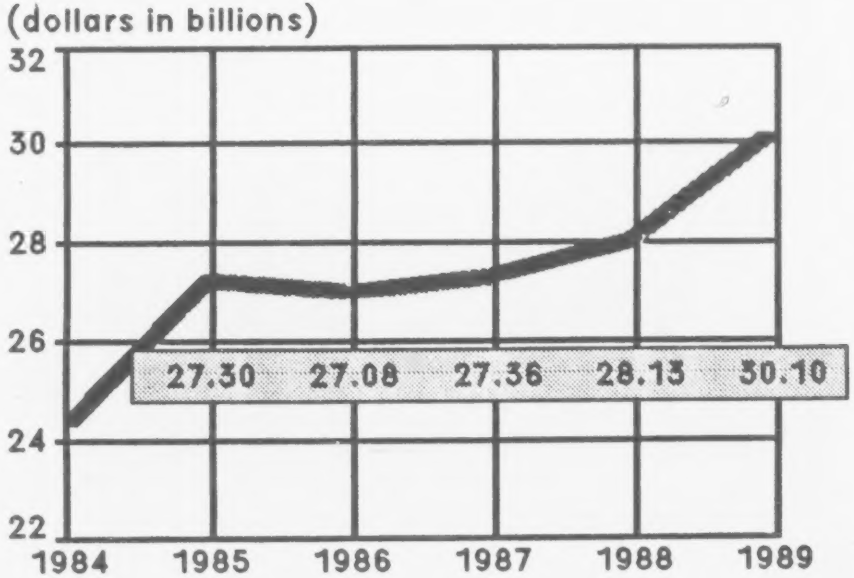
FY 1989 Budget

Includes proposed legislation



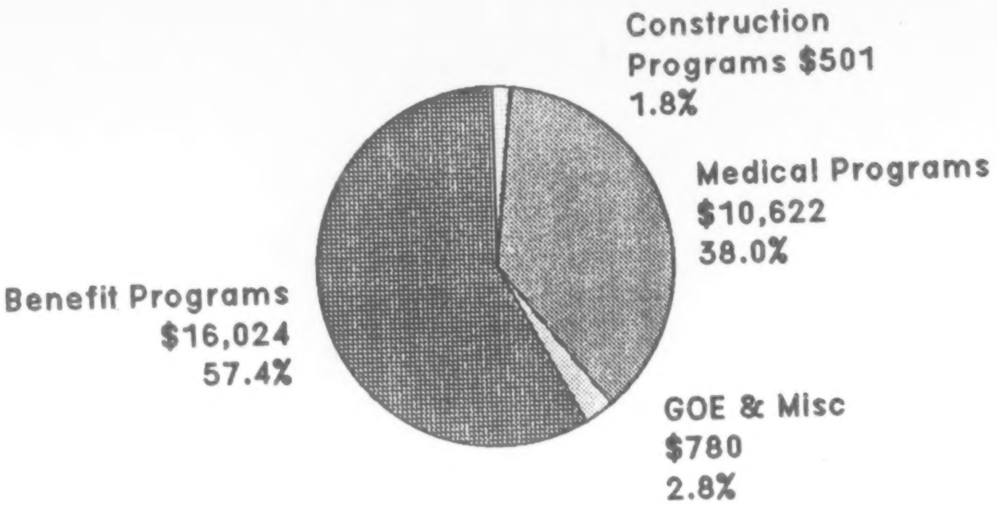
Total Budget Authority

1984 - 1989



1989 Appropriation Request

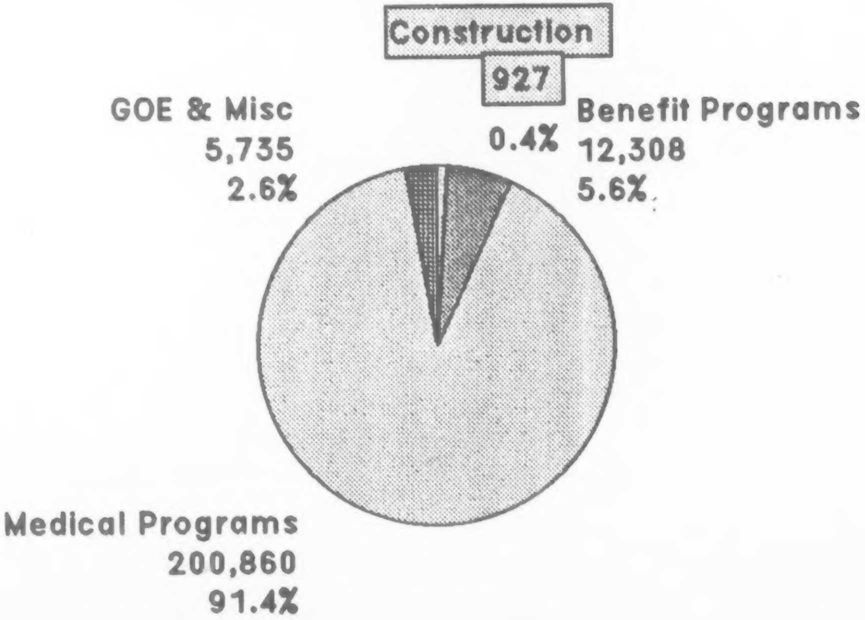
Distribution by Major Programs
(dollars in millions)



Total, VA $27,927

1989 Average Employment Request

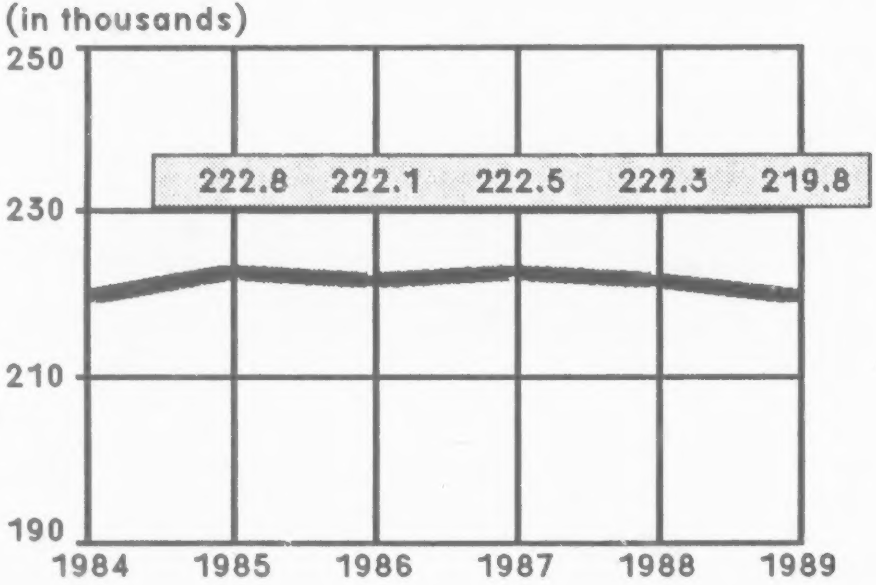
Distribution by Major Programs



Total, VA 219,830

Total Average Employment

1984 - 1989



1989 Budget Authority

Requiring Action by Congress

	($ In millions)
Appropriations Request (Existing Legislation)	$27,927
Proposed Legislation	1,476
Total - Requiring Action by Congress	29,403
Permanent Authorizations & Offsetting Receipts	694
Total, Budget Authority	$30,097

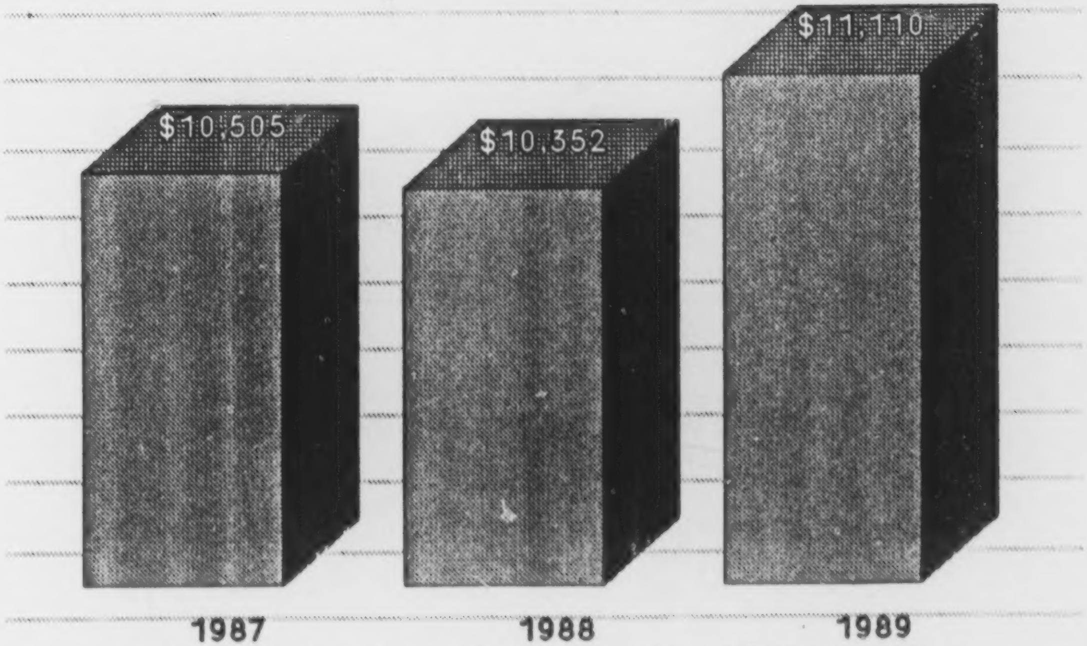
FY 1989 Proposed Legislation

(dollars in thousands)

Compensation:	
COLA increase of 4.2% (12/1/88)	$360,900
Medical Care:	
Increase State Home Care per diem rates	18,999
Expand authority to allow tuition reimbursement to nurses for degree related courses	5,000
Credit Reform:	
Loan guaranty revolving fund	-246,500
Loan guaranty revolving fund subsidies	1,337,100
Direct loan revolving fund subsidies	150
Vocational rehabilitation subsidies	100
Total, proposed legislation	$1,475,649

Compensation

(dollars in millions)



FY 89 includes proposed legislation of $360.9 million

Compensation

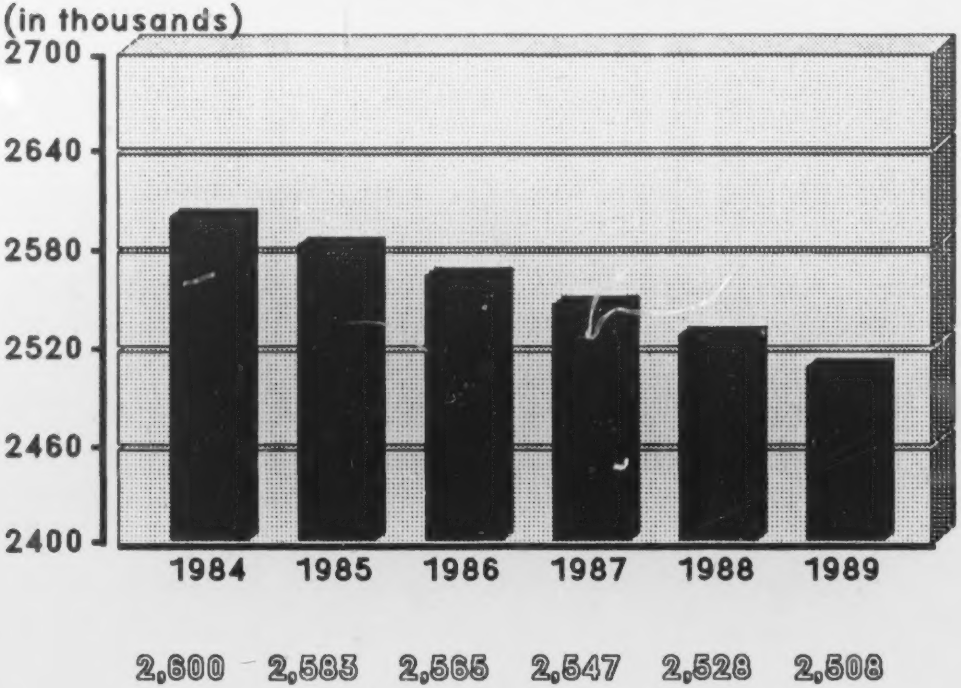
- A 4.2 percent cost-of-living adjustment (COLA) was provided to compensation recipients effective December 1987.

- Legislation will be proposed to index the annual change in the COLA to changes in the consumer price index. This proposal would guarantee a full and timely COLA to all compensation beneficiaries, including DIC dependents. It is estimated that the COLA effective December 1, 1988 will be 4.2 % and require $360.9 million in 1989.

- Total average caseload is expected to be 2,507,887 in 1989.

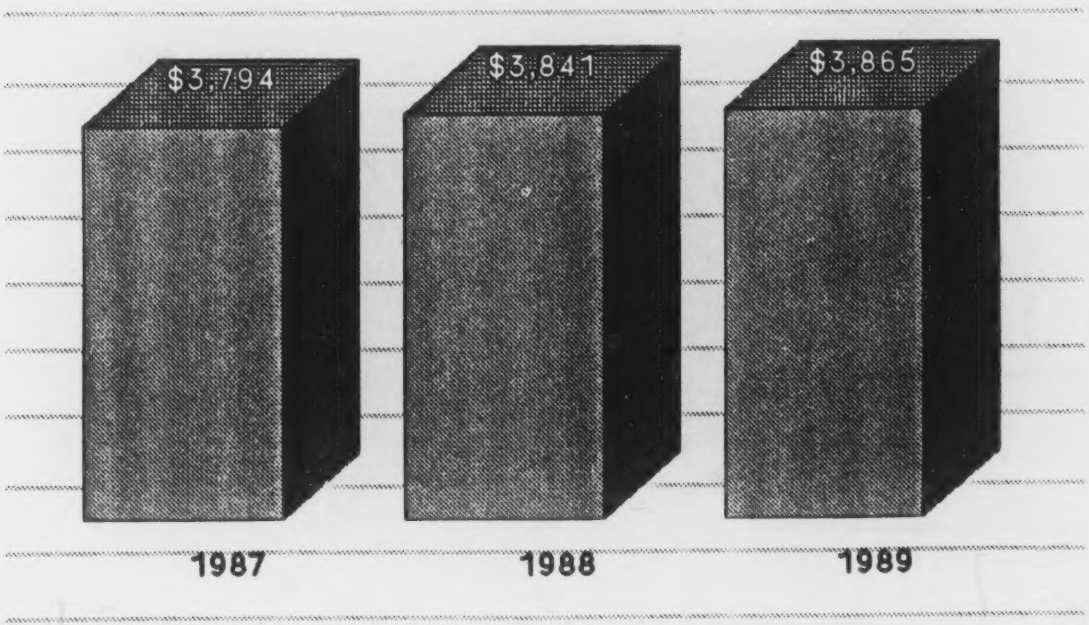
Compensation Workloads

Veterans and Survivors



Pensions

(dollars in millions)



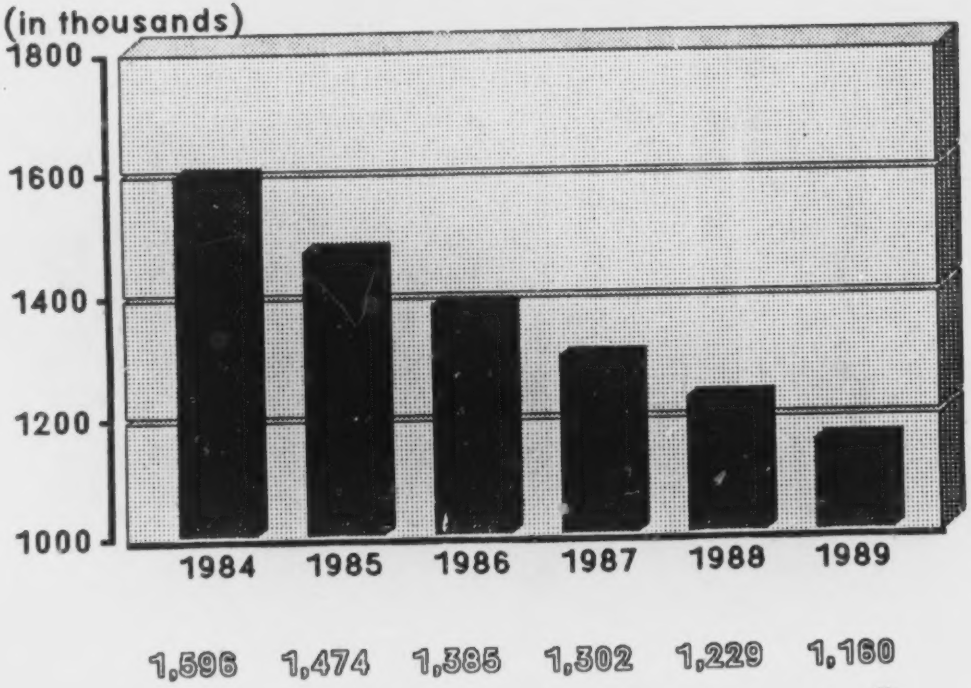
Pensions

Included in the budget request	**($ in millions)**	
	1988	1989
• Cost-of-living adjustments of:		
4.2% (effective 12/1/87)	$108.2	$133.4
4.2% (effective 12/1/88)	...	111.9
Total	$108.2	$245.3

- It is anticipated that the pension caseload will total 1,160,400 in 1989.

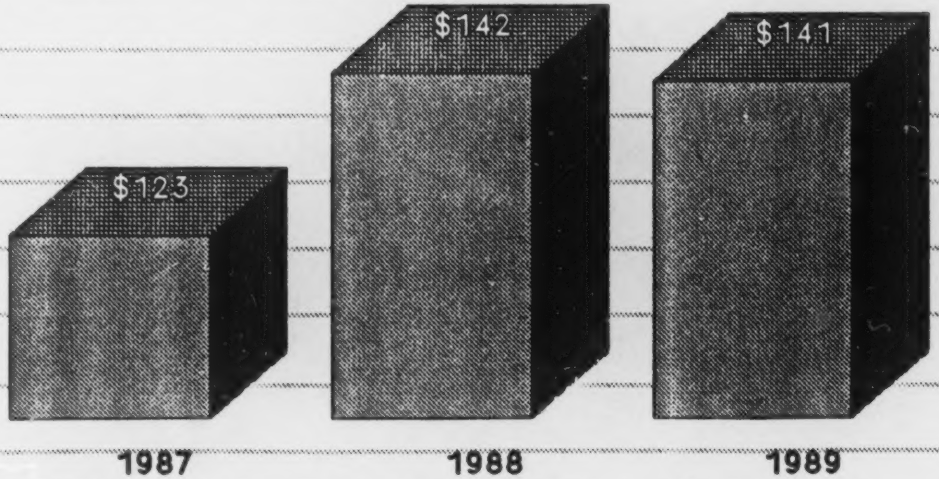
Pensions Workloads

Veterans and Survivors



Burial Benefits and Miscellaneous Assistance

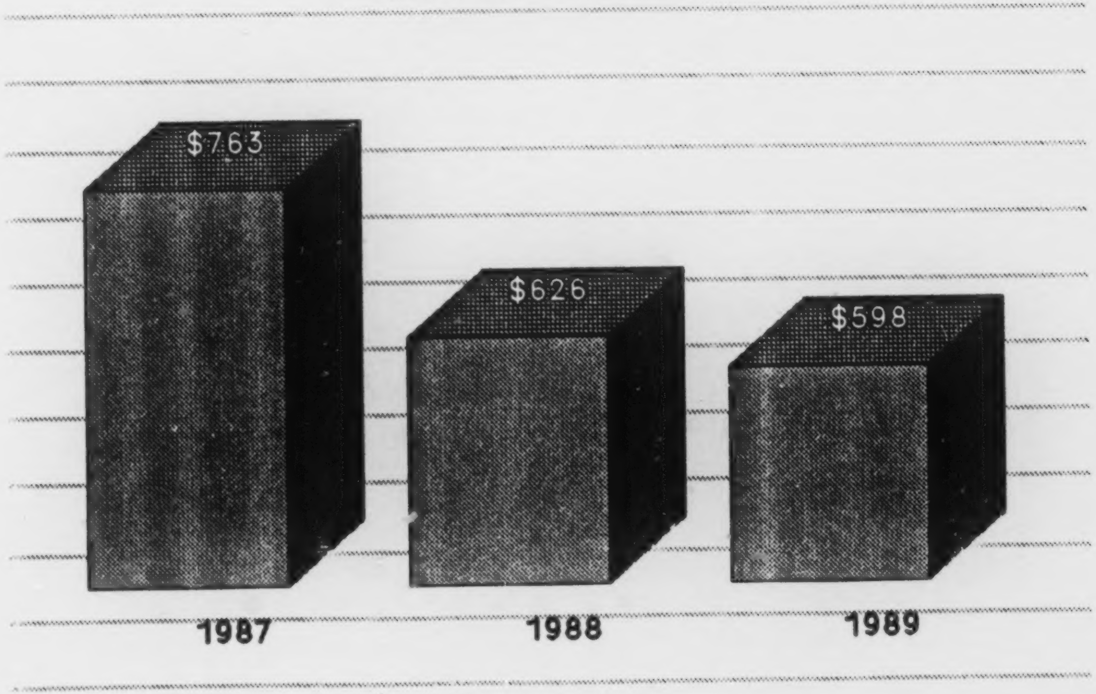
(dollars in millions)



FY 89 includes proposed legislation of $-4.4 million

Readjustment Benefits

(dollars in millions)



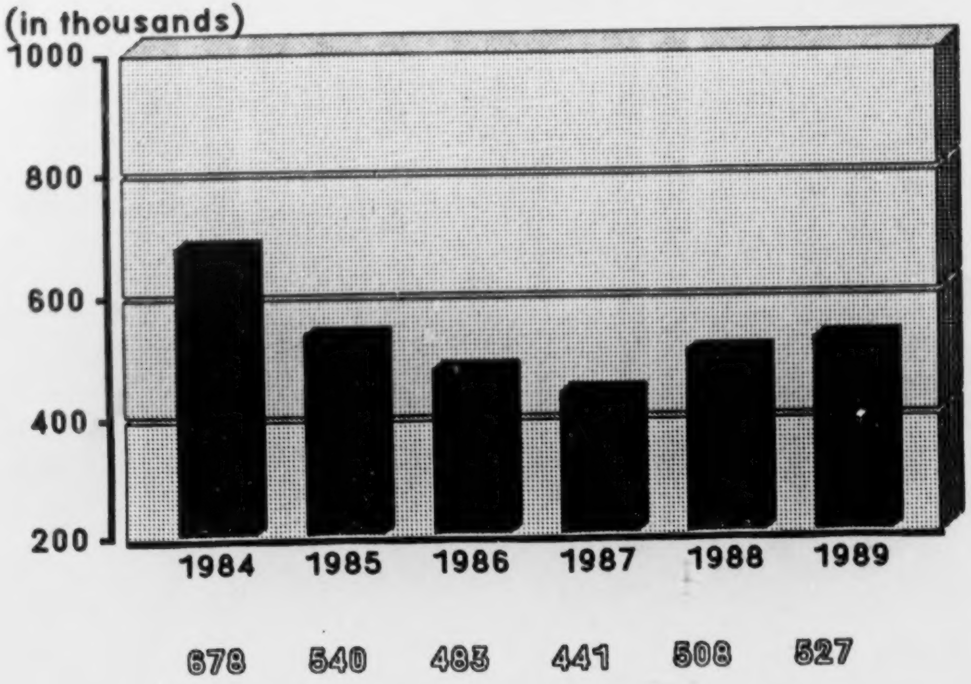
Readjustment Benefits

- In 1989, 159,100 veterans will utilize the GI Bill education benefits. This represents a 19 percent decline from the 1988 trainee level resulting from veterans either reaching their delimiting date or exhausting their benefits.

- It is estimated that nearly $100 million in education benefits will be paid to 41,500 veterans training under the Montgomery GI Bill.

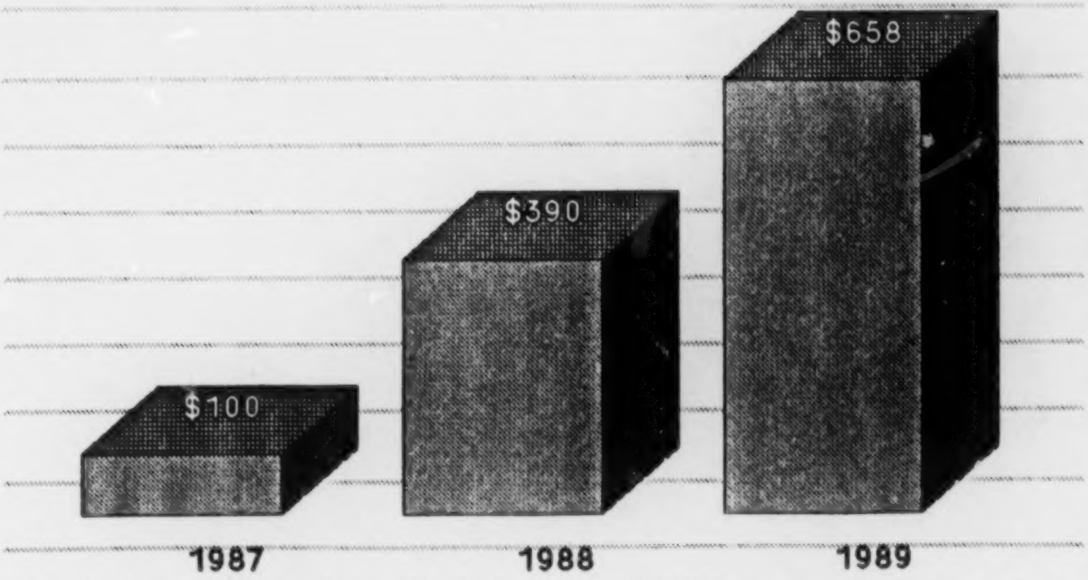
Readjustment Benefits Workloads

Trainees



Loan Guaranty Revolving Fund

(dollars in millions)



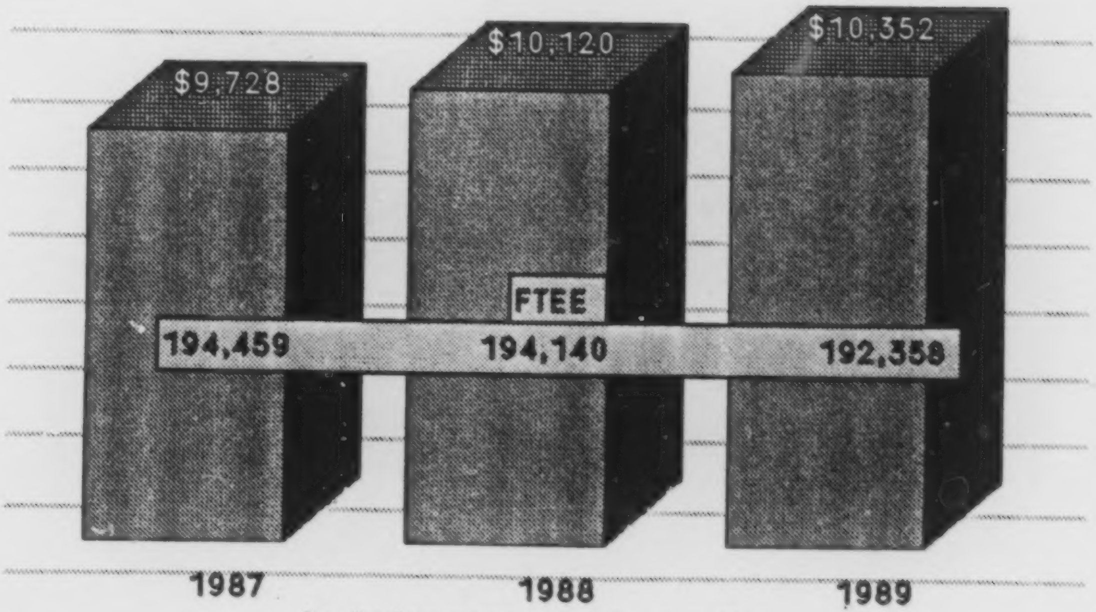
Excludes proposed Credit Reform and 1988 recourse loan sales

Loan Guaranty Revolving Fund

- In 1989, it is estimated that the VA will guaranty 232,600 loans valued at $17.9 billion.
- Administration is submitting credit reform proposal in 1989. Implementation of credit reform will not impact the veterans ability to obtain guaranteed home loans from private lenders without a down payment.
- Legislation will also be submitted enabling the veteran to negotiate the home loan interest rate directly with the lender.

Medical Care

(dollars in millions)



Includes proposed legislation

Medical Care

1988 and 1989

--1988--

- The 1988 funding of $10.1 billion includes funding for AIDS and Homeless Programs; 1988 pay raise costs; and to maintain an employment level of 194,140 FTEE.

--1989--

- The 1989 request of $10.4 billion including proposed legislation is $232 million greater than 1988.

- The budget provides for treating over 1.2 million in-patients and over 23 million outpatient visits.

- Legislation is being proposed (1) to expand authority to allow tuition reimbursements to nurses for degree related courses and (2) to increase the State Home Care per diem rate

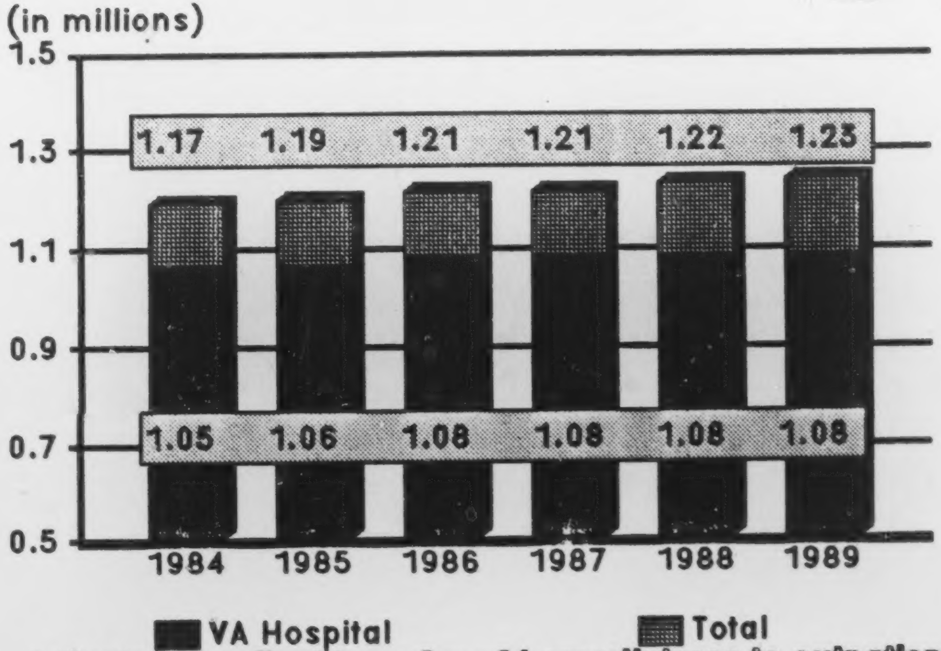
Medical Care

1989

- The budget provides funding for:
  - ➡ Enhancement for the Decentralized Hospital Computer Program (DHCP)
  - ➡ Investments in automation improvements for PAID Redesign and LOG I
  - ➡ Expansion of the Medical District Initiated Peer Review Organization (MEDIPRO)
  - ➡ Increased workloads for Community Nursing Home Care Program
  - ➡ Implementation of Centralized CHAMPVA Payment Center

Key VA Medical Workloads

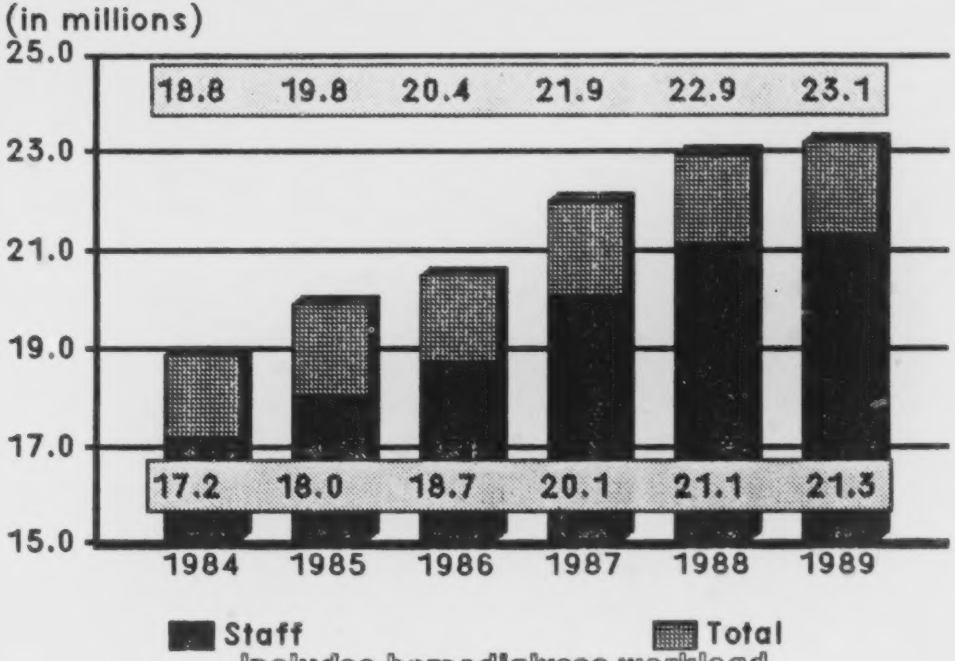
Total Inpatients Treated



Adjusted to reflect transfer of hemodialyses to outpatient

Key VA Medical Workloads

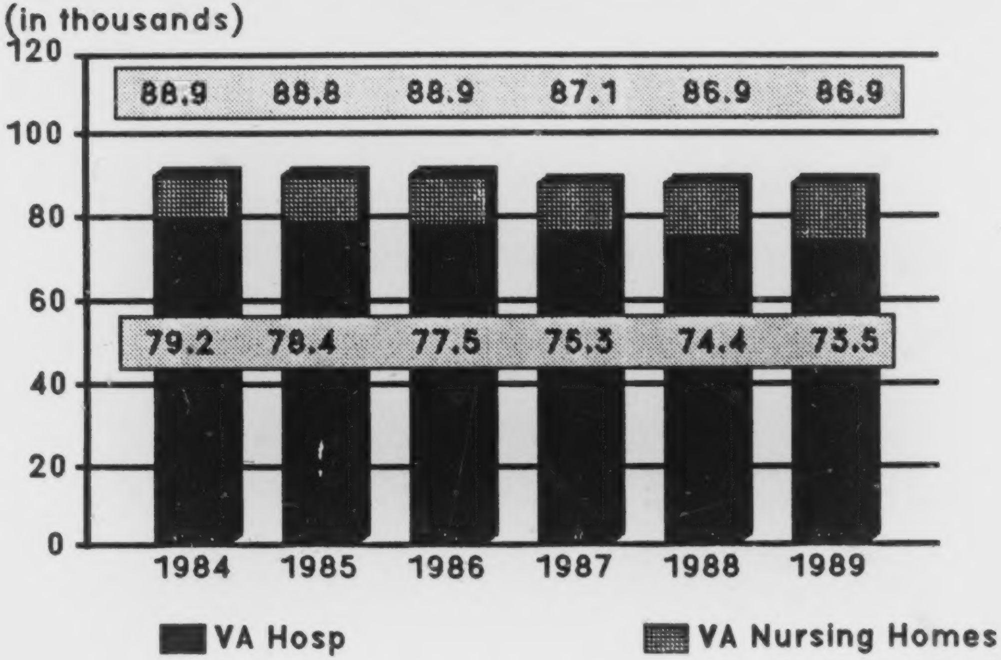
Total Outpatient Medical Visits



Includes hemodialyses workload

Operating Beds - Average

1984 - 1989



VA Nursing Homes

FY 1988	BEDS:	Activations	Conversions
Loma Linda, CA		60	
Northport, NY		120 *	
Lyons, NJ		240	
San Antonio, TX		120 *	
Minneapolis, MN		120 *	
Buffalo, NY			34
Ft. Lyon, CO			142
Ft. Meade, SD			30*
Roseburg, OR			15
Bonham, TX			20
Altoona, PA			33
Sheridan, WY			50*

* New activations, all other expansions

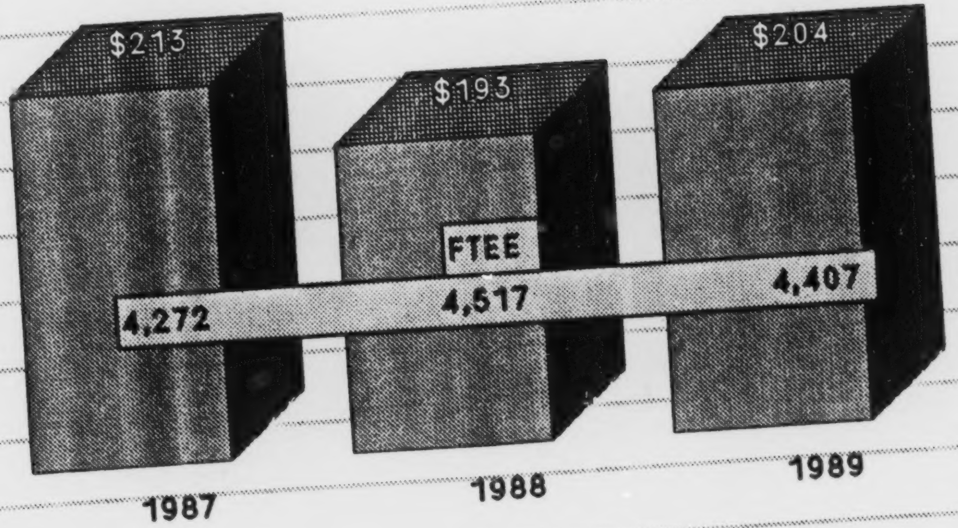
VA Nursing Homes

FY 1989	BEDS:	Activations	Conversions
Philadelphia, PA		240 *	
San Juan, PR		120 *	
Durham, NC		120 *	
Murfreesboro, TN		72	
Prescott, AZ		60	
West Los Angeles, CA		120	
Chillicothe, OH			173
Dayton, OH			46
Canadaigua, NY			50
Batavia, NY			35

* New activations, all other expansions

Medical & Prosthetic Research

(dollars in millions)



Medical & Prosthetic Research

1988

- The 1988 funding includes an additional $15 million in reimbursements from DOD for a DOD/VA cooperative program to be available for two years.

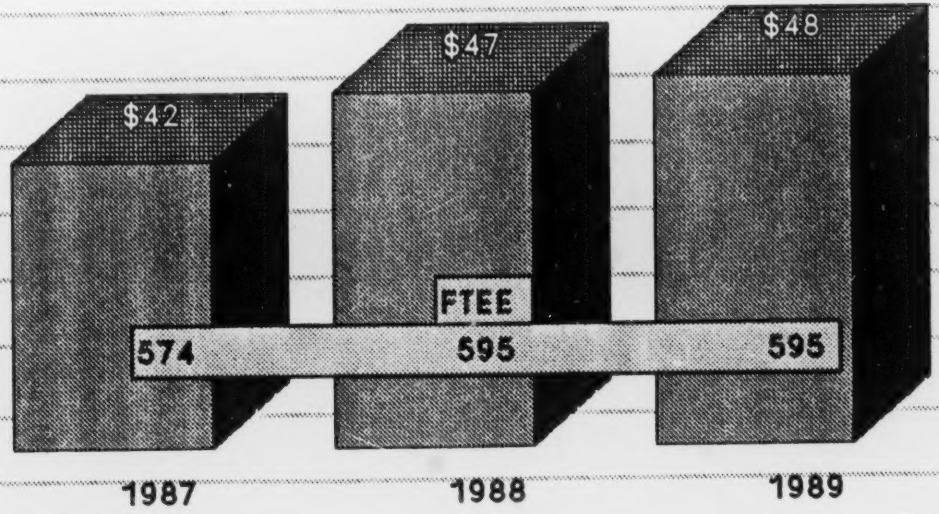
1989

- The 1989 request of $204.2 million is $11.3 million over 1988.

- The budget provides funding for an additional $3 million for AIDS research.

Medical Administration and Miscellaneous Operating Expenses

(dollars in millions)



MAMOE

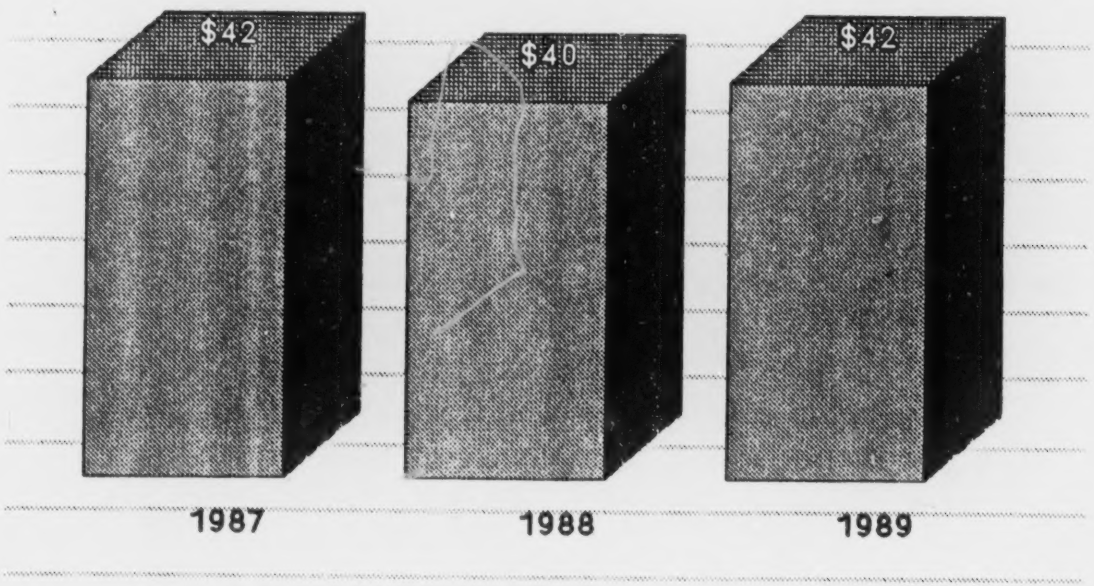
1989

- The 1989 funding of $47.9 million is $1.3 million over 1988 and provides $7.1 million for the Health Professional Scholarship program at the same level as 1988.

- The budget request provides for the formation of a program office to coordinate agency efforts for both the treatment and research aspects of dealing with AIDS.

Grants for Construction of State Extended Care Facilities

(dollars in millions)

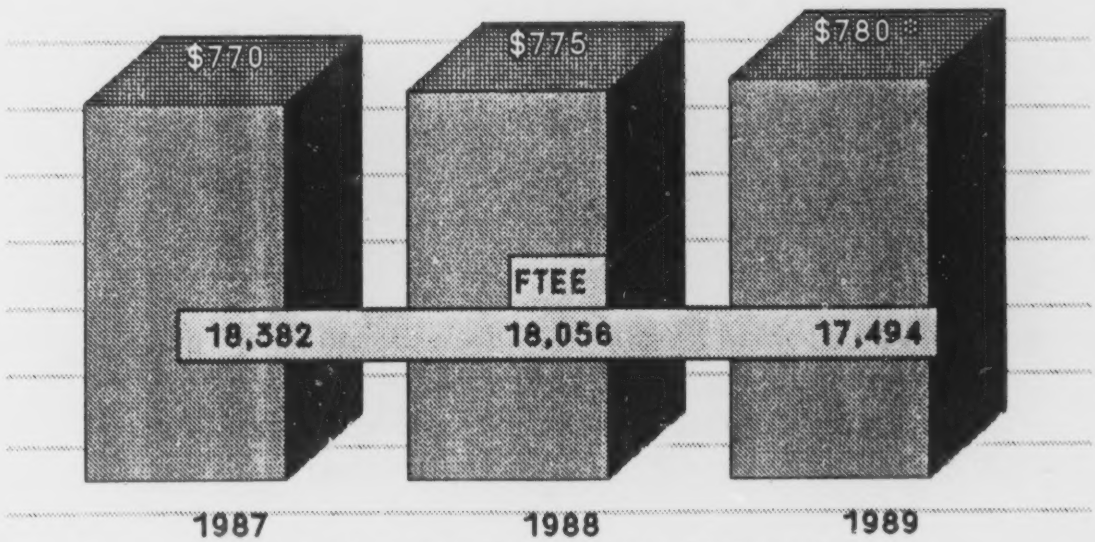


Grants for Construction of State Extended Care Facilities

- The 1989 request of $42 million is $1.7 million greater than 1988 and provides for five projects which will produce 732 nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects in five States.

General Operating Expenses

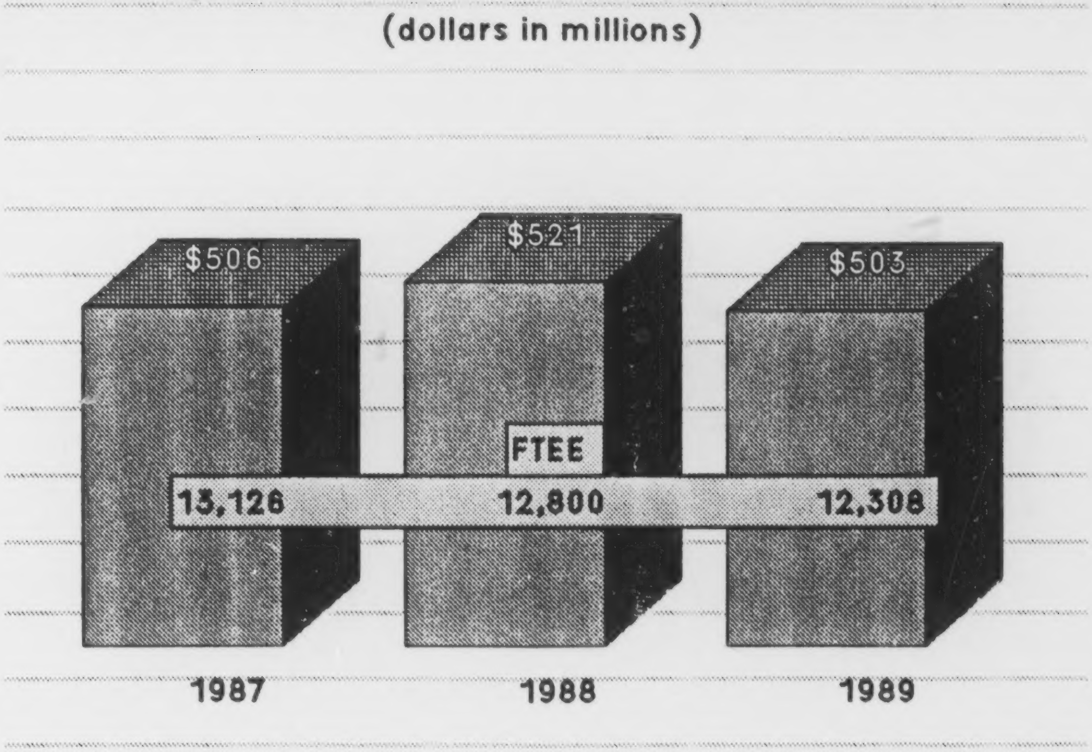
(dollars in millions)



* Includes Grants for State Cemeteries

Department of Veterans Benefits

(dollars in millions)



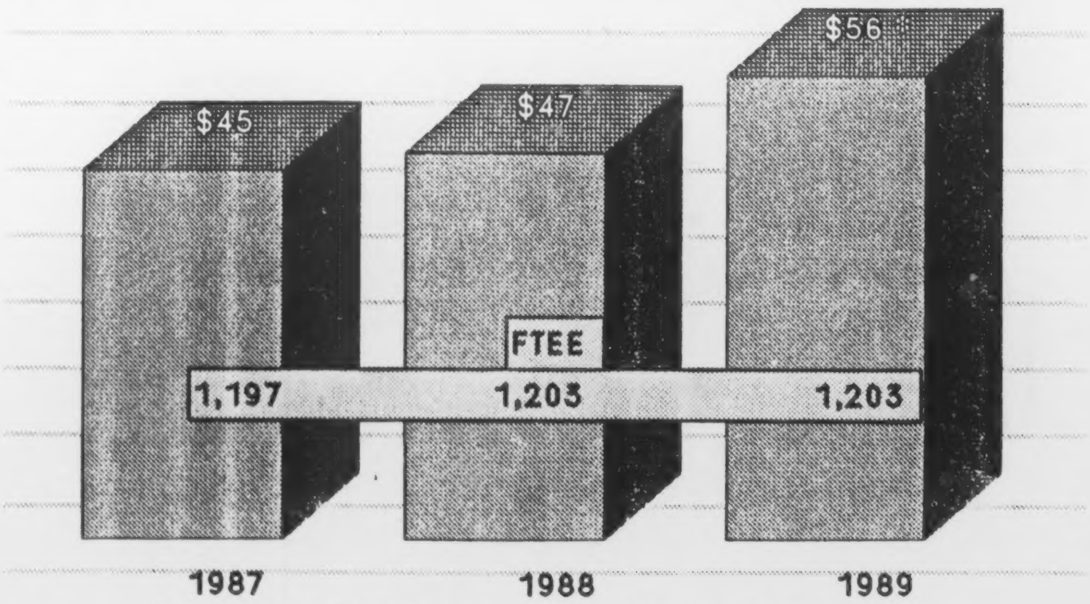
Department of Veterans Benefits

- $4.0 million is requested for the Loan Guaranty Pilot Project to evaluate the feasibility and cost-effectiveness of contracting out the acquisition, management and resale of the VA's property inventory. This two-year test will examine ten percent of the inventory.

- Savings will result from the insurance toll-free telephone initiative which began in 1988 and will save 26 FTEE in 1989.

Department of Memorial Affairs

(dollars in millions)



* Includes Grants for State Veterans Cemeteries

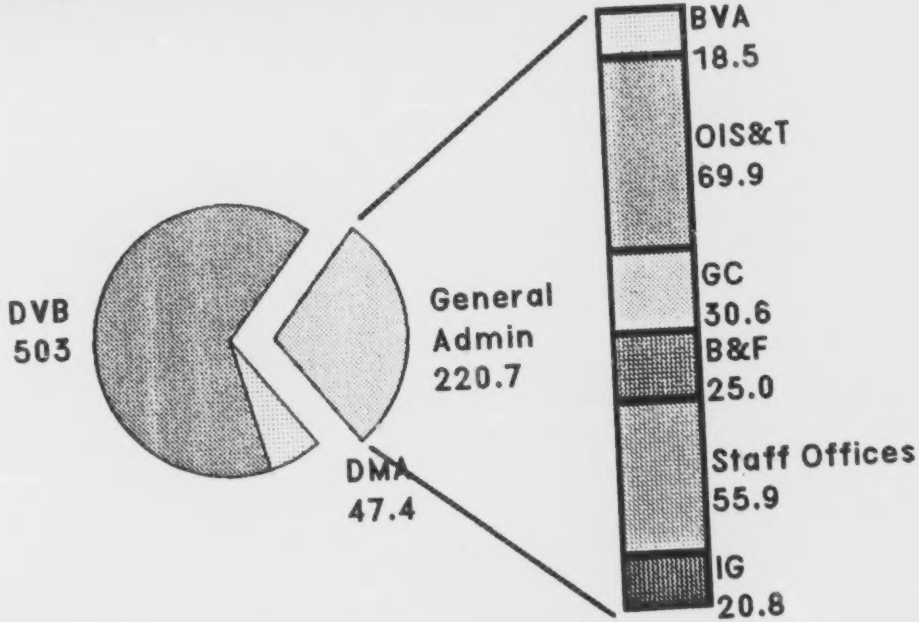
Department of Memorial Affairs

- An increase of $600,000 in support of VADATS/IDCU is offset by reductions in non-payroll object classes.

- The 1989 funding request for the State Cemetery Grant Program is $9 million. The funding level will allow at least ten interested states to receive matching grants.

General Operating Expenses

1989 Budget Authority ($ in millions)



DMA excludes Grants for State Cemeteries

Staff Offices

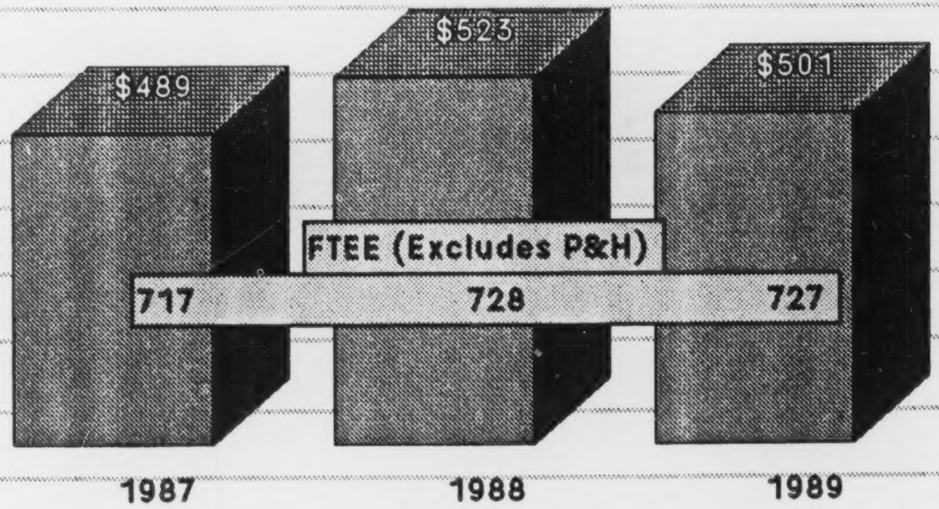
- $4.9 million for ADP initiatives, of this amount $2.9 million support the Agency-wide Financial Management System (FMS); and $2.0 million for PAID Redesign.

- Savings of $1.3 million and 39 FTEE are expected due to contracting out and MEO Studies.

- Improved efficiency realized by recent office automation initiatives will reduce costs by $1.9 million and 31 FTEE.

Construction Program Summary

(dollars in millions)



Includes funding for Parking Garage Revolving Fund

Construction Program Summary

- This budget request provides $500.6 million for construction programs: $367.8 million major projects; $123.8 million minor projects; and $9 million the parking garage fund.

- Included in these totals are:

Medical Programs:	$420.3 million
Regional Offices:	10.7 million
Cemetery Programs:	17.9 million
Staff Offices:	7.5 million
Parking Garage Fund:	9.0 million
General Administration:	42.7 million
Less: FY 88 Design Fund:	- 7.5 million
Total	$500.6 million

Construction Program Funding

(dollars in millions)

Replacement and Modernization	
Atlanta, GA	$ 54.2
Bronx, NY (Contractor Claim)	8.0
Indianapolis, IN	8.4
Newington, CT	5.3
Pittsburgh (Aspinwall), PA	52.0
Total	$127.9
Nursing Homes	
Tampa, FL	$ 6.7
Minor Projects	3.0
Total	$ 9.7

Construction Program Funding

(dollars in millions)

Domiciliaries	
Mountain Home, TN	$ 32.0
Total	$ 32.0
Clinical Improvements	
Beckley, WV	$ 15.7
Nashville, TN	42.0
Perry Point, MD	12.2
San Antonio, TX	8.0
Minor Projects	10.0
Total	$ 87.9

Construction Program Funding

(dollars in millions)

Fire & Safety	
Leavenworth, KS	$ 6.8
Minor Projects	15.0
Total	$ 21.8
All Other (Asbestos; APF; Design; etc.)	177.1
General Administration	42.7
Add, Parking Garage Revolving Fund	+ 9.0
Less, FY 1988 Design Fund	- 7.5
Total, Program Level	$ 500.6

1989 Budget Authority

(Includes Legislation)

(dollars in thousands)	1988	1989	Change
Benefit Programs	$15,729,777	$17,475,570	$+1,745,793
Medical Programs	10,399,984	10,646,195	+ 246,211
Construction Programs	522,762	500,636	- 22,126
GOE & Grants for State Cemeteries	774,810	780,316	+ 5,506
All Other	702,088	694,489	- 7,599
	----------	----------	----------
Total, BA	$28,129,421	$30,097,206	$+1,967,785

SPECIAL RESEARCH INITIATIVES

The attached lists provide the names of principal investigators, titles, VA Medical Center location and funding for VA AIDS studies, aging, alcoholism and other special research initiatives.

List A:	Investigator-initiated studies related to HIV, submitted in response to Central Office solicitation of February, 1987. These studies will be funded April 1, 1988.
List B:	VA research studies related to HIV funded through normal mechanisms of Merit Review, Career Development and Cooperative Studies.
List C:	VA research studies funded through the special research initiative mechanism in the areas of aging, alcoholism, spinal cord injury and regeneration, delayed stress disorders of Vietnam veterans and schizophrenia.

ATTACHMENT A

Specially solicited AIDS research projects are listed with an annual funding level. Funding will begin April 1, 1988.

VETERANS ADMINISTRATION
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
INVESTIGATORS IN FALL 1987 MERIT REVIEW ROUND WITH PROGRAMS IN HIV SPECIAL SOLICITATION

ALBUQUERQUE, NM DAVIS, LARRY, M.D.
AIDS: Clinical, Infectious and Morphologic Studies of the Middle and Inner Ear
Annual VA Funding: $49,010

AMARILLO, TX TREVILLYAN, JAMES M., Ph.D.
Interaction of the AIDS-Virus Envelope Protein with its Cellular Receptor
Annual VA Funding: $67,865

AMARILLO, TX WRIGHT, STEPHEN E., M.D.
AIDS Virus Envelope Vaccinia Recombinant Vaccines
Annual VA Funding: $78,680

BALTIMORE, MD BILELLO, JOHN A., Ph.D.
AND
STANDIFORD, HAROLD C., M.D.
Optimization of Therapy with AZT
Annual VA Funding: $65,920

BALTIMORE, MD YETTER, ROBERT A., Ph.D.
Failure of CTL Response in Retrovirus-Induced Immunodeficiency Disease
Annual VA Funding: $70,771

DENVER, CO BLASER, MARTIN, M.D.
Etiology of Enteric Infections in HIV-Infected Patients
Annual VA Funding: $58,236

DURHAM, NC HAMILTON, JOHN D., M.D.
AND
KLOTMAN, MARY E., M.D.
Location and Control of HIV
Annual VA Funding: $35,116

DURHAM, NC WILSON, KENNETH, M.D.
Colonization by Mycobacterium Avium-Intracellulare in Aids
Annual VA Funding: $30,638

HOUSTON, TX MUSHER, DANIEL M., M.D.
Effect of HIV Infection on Alveolar Macrophage Function
Annual VA Funding: $70,305

IOWA CITY, IA KIRCHHOFF, LOUIS V., M.D., M.P.H.

Immunology and Molecular Biology of Pneumocystis Carinii
Annual VA Funding: $60,126

LEXINGTON, KY SMITH, THOMAS J., M.D.
Sustained Release Antiviral Drug Delivery Systems for Treatment of AIDS
Annual VA Funding: $27,794

MARTINEZ, CA GREEN, JON A., M.D., Ph.D.
Immunespecific Interferon and HIV Infection
Annual VA Funding: $52,512

NASHVILLE, TN STEWART, STANFORD J., M.D.
CD-4 Mediated Inhibition of Cellular Activation
Annual VA Funding: $43,773

NEW ORLEANS, LA ANDES, W. ABE, M.D.
The Nutritional and Metabolic Effects of HIV Infections
Annual VA Funding: $54,952

PALO ALTO, CA GREENBERG, HARRY B., M.D.
Isolation and Characterization of HIV Neutralizing Monoclonal Antibodies
Annual VA Funding: $86,059

PORTLAND, OR CHOU, SUNWEN, M.D.
CMV-HIV Interactions in Mononuclear Leukocytes
Annual VA Funding: $61,231

PORTLAND, OR VANDENBARK, ARTHUR A., Ph.D.
Modulation of HIV Receptor by Gangliosides
Annual VA Funding: $71,242

SAN ANTONIO, TX GRAYBILL, JOHN R., M.D.
Biology and Host Defenses in Cryptosporiodiosis
Annual VA Funding: $76,965

SAN DIEGO, CA HOSTETLER, KARL Y., M.D.
Liposomal Targeting of Antiviral Drugs to HIV-Infected Cells
Annual VA Funding: $62,295

SAN DIEGO, CA LANE, THOMAS A., M.D.
Mechanism of Neutrophil Chemotaxis Dysfunction in AIDS
Annual VA Funding: $42,807

SAN DIEGO, CA SPINA, CELSA A., Ph.D.
Influence of T Cytotoxic/Suppressor CD8 Cells on HIV Infection
Annual VA Funding: $92,543

SAN FRANCISCO, CA MEEKER, TIMOTHY C., M.D.
The AIDS-associated Lymphomas: A Molecular Analysis of their Pathogenesis
Annual VA Funding: $85,694

TUCSON, AZ AMPEL, NEIL MARTIN, M.D.
Coccidioidomycosis during Infection with Human Immunodeficiency Virus
Annual VA Funding: $44,792

WEST HAVEN, CT LANDRY, MARIE L., M.D.
AND
RYAN, JOHN L., M.D., Ph.D.
Therapy of Human Immunodeficiency Virus Infection in Macrophages
Annual VA Funding: $92,782

WEST LOS ANGELES (BRENTWOOD DIV.), FREDERICK, CALVIN J., Ph.D.
AND
VAN GORP, WILFRED G., Ph.D.
HIV-Related CNS Abnormalities and Response to AZT
Annual VA Funding: $56,330

WEST LOS ANGELES (WADSWORTH DIV.), GAYNOR, RICHARD B., M.D.
Characterization of the HIV Enhancer Binding Protein
Annual VA Funding: $197,100

TOTAL $1,735,538

ATTACHMENT B

The attached list includes VA research studies supported through established programs in Medical Research Service. Included on the list of HIV projects is the VA funding for FY 1987 and Extra-VA funding. This represents the last full year of reported support. All projects listed are conducted by VA investigators even though some projects are receiving no direct funding support or are receiving Extra-VA support from other government agencies, private proprietary grants or voluntary agencies. The funding from these sources are summarized on the last sheet.

VETERANS ADMINISTRATION
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
FY 87 FUNDING- AIDS PROJECTS

Impact of AIDS on Patients and their Social Support System
JANKOWSKI, STEPHEN, M.S..W. 500 ALBANY, NY

Uncontrolled clinical trial of long term safety of AZT
SMITH, RAYMOND P., M.D. 500 ALBANY, NY

Cerebral Herpetic Infections in the Acquired Immunodeficiency Syndrome
KOEPPEN, ARNULF, M.D. 500 ALBANY, NY
FY 87 VA Funding: $2,224
Bacteriologic and Immune Studies in Whipple's Disease
DOBBINS, WILLIAM O. III, M.D. 506 ANN ARBOR, MI
FY 87 VA Funding: $31,744

Structure-activity relationship of anti-HLTV-III/LAV Compounds
SCHINAZI, RAYMOND F., Ph.D. 508 DECATUR, GA
FY 87 VA Funding: $ 44,115
FY 87 Extra-VA Funding: $114,756-Other

Retrovirus Induced Changes in Neural Cell Membrane Function
BILELLO, JOHN A., Ph.D. 512 BALTIMORE, MD
FY 87 VA Funding: $61,973

Development of Models Infected with Retroviruses for Testing of Anti-Viral Agents
BILELLO, JOHN A., Ph.D. 512 BALTIMORE, MD
FY 87 Funding: $ 3679
FY 87 Extra-VA Funding: $162,482 -NIAID

Retrovirus Paralysis and Lymphoma in Adult Mice
HOFFMAN, PAUL M., M.D. 512 BALTIMORE, MD
FY 87 VA Funding: $99,602

Cognitive and Emotional Correlates of HIV Infection
CLARK, MICHAEL E., Ph.D. 516 BAY PINES, FL

Treatment of Mycobacterium Avium-Intracellular Infections with Ansamycin and Clofazimine
HAWKINS, CATHERINE CRISSEY, M.D. 527 BROOKLYN, NY

HIV-Related CNS Abnormalities and Response to AZT
VAN GORP, WILFRED G., Ph.D. 530 WEST LOS ANGELES (BRENTWOOD DIV

The Natural History of Acquired Immune Deficiency Syndrome (AIDS) in Homosexual Men
PHAIR, JOHN P., M.D. 535 CHICAGO, (LAKESIDE), IL
FY 87 Extra-VA Funding: $1,512,263 -NIAID

A Phase III Study Comparing High-dose to Low-dose INTRON in AIDS-related Kaposi's Sarcoma, Stage IIA, IIIA, or IVA
VON ROENN, JAMIE HAYDEN, M.D. 535 CHICAGO, (LAKESIDE),

Histocompatibility, viral and immunogenetic factors in cirrhosis
SCHIFF, EUGENE R., M.D. 546 MIAMI, FL

Association of Blood Product Use with Immune Function Changes: Relation to AIDS
SCHIFF, EUGENE R., M.D. 546 MIAMI, FL
FY 87 Funding: $463
FY 87 Extra-VA Funding: $625,098-Nat'l Heart,Lung,Blood

Reducing Health Risks Among Intravenous Drug Users
BLACK, JOHN L., Ph.D. 549 DALLAS, TX

A Study Involving Patients Receiving Azidothymidine Under a Treatment Protocol
MACKOWIAK, PHILIP, M.D. 549 DALLAS, TX

Uncontrolled Clinical Trial of the Long Term Safety of AZT
SUNSTRUM, JAMES, M.D. 553 ALLEN PARK, MI
FY 87 VA Funding: $1,425

Tests for Isoprecipitine in sera of patients with AIDS
BLASER, MARTIN, M.D. 554 DENVER, CO
FY 87 Funding: $ 1,439

Biochemical characterization of human immune neutropenias
CURRIE, MARK S., M.D. 558 DURHAM, NC
FY 87 VA Funding: $ 952
FY 87 Extra-VA Funding: $45,000 -NIADDK

Treatment of AIDS and AIDS-Related Complex: Part I. Treatment of patients with ARC
HAMILTON, JOHN D., M.D. 558 DURHAM, NC
FY 87 VA Funding: $611,698
FY 87 Extra-VA Funding: $132,940 - Other Government Agencies

HTLV-1 Sequences in Multiple Sclerosis
COOK, STUART D., M.D. 561 EAST ORANGE, NJ

Neurologic Manifestations of HTLV-III Infection
DOWLING, PETER, M.D. 561 EAST ORANGE, NJ
FY 87 Extra-VA Funding: $10,000 -Other Government Agencies

The Risk of Bacteremia in Patients with Acquired Immune Deficiency Syndrome
ENG, ROBERT H.K., M.D. 561 EAST ORANGE, NJ

Open, noncomparative study of Fluconazole for treatment of fungal diseases in patients with acquired immunodeficiency syndrome
ENG, ROBERT H.K., M.D. 561 EAST ORANGE, NJ
FY 87 Extra-VA Funding:$ 3,000 - Private Proprietary Grants

Consequences of HTLV-III Infection for IV Drug Abusers
DORUS, WALTER, M.D. 578 HINES, IL
FY 87 VA Funding: $ 2,042
FY 87 Extra-VA Funding: $ 22,554 -Nat'l Inst. of Drug Abuse

Spontaneous and Induced Activation of Silent Retroviral Oncogenes
TUREK, LUBOMIR P., M.D. 584 IOWA CITY, IA
FY 87 VA Funding: $150,138

Determinants of Mucosal Colonization and Infection with Candida in HTLV-III Related Syndromes
SEGAL, GARY P., M.D. 600 LONG BEACH, CA
FY 87 VA Funding: $57,938
FY 87 Extra-VA Funding: $26,910-Other Government Agencies

Cellular Pathogenesis of Central Nervous System Spongiform Degeneration
BROOKS, BENJAMIN R., M.D. 607 MADISON, WI
FY 87 VA Funding: $77,789
FY 87 Extra-VA Funding: $237,387-Voluntary Agencies
$132,000-Private Proprietary Grants

In Vitro Transformation of Human Hematopoietic Stem Cells
MAUER, ALVIN M., M.D. 614 MEMPHIS, TN
FY 87 VA Funding: $64,300

AIDS-Associated Pneumocystis carinii and Macrophages
SHEAR, HANNAH L., Ph.D. 630 NEW YORK, NY
FY 87 Extra-VA Funding: $74,000 -Other

AIDS-Associated Pneumocystis carinii and Macrophages in Rodents and Humans
SHEAR, HANNAH L., Ph.D. 630 NEW YORK, NY

Use of Ansamycin (LM-427)
SIMBERKOFF, MICHAEL S., M.D. 630 NEW YORK, NY
FY 87 VA Funding: $33,408

Use of Clofazimine for M. Avium intracellulare infection
SIMBERKOFF, MICHAEL S., M.D. 630 NEW YORK, NY

(Protocol BW-B759U-002) To Treat Bone Marrow Transplant, AIDS or Other Immunocompromised Patients with Cytomegalovirus, Pneumonitis & Retinitis
SIMBERKOFF, MICHAEL S., M.D. 630 NEW YORK, NY

HTLV-3 Antibody Testing
SIMBERKOFF, MICHAEL S., M.D. 630 NEW YORK, NY

Pathogenic Role of Hyperactive B Cells in AIDS
ZOLLA-PAZNER, SUSAN, Ph.D. 630 NEW YORK, NY

Phenotypic and Functional Characterization of Benign and Malignant B Cells in Patients with AIDS
ZOLLA-PAZNER, SUSAN, Ph.D. 630 NEW YORK, NY
FY 87 VA Funding: $86,830

Effect on Human B Cells of Derivatized Guanine Nucleosides
ZOLLA-PAZNER, SUSAN, Ph.D. 630 NEW YORK, NY
FY 87 VA Funding:$2,849

Pathogenesis of Acquired Immune Deficiency Syndrome
STEIGBIGEL, ROY T., M.D. 632 NORTHPORT, NY

Immunologic Studies of the AIDS Associated Virus and its T Cell Target
ENGLEMAN, EDGAR G., M.D. 640 PALO ALTO, CA
FY 87 VA Funding: $76,958

Studies of Viral Enteric Pathogens in AIDS Associated Diarrhea
GREENBERG, HARRY B., M.D. 640 PALO ALTO, CA
FY 87 Extra-VA Funding: $65,360

Incidence of Antibodies to HTLV-III Following Cardiac Surgery in Patients Followed at the Salem VAMC
SCHLEUPNER, CHARLES JOHN, M.D. 658 SALEM, VA

Tumor Virus Vaccine: Tumor Antigens: Carbohydrates of Envelope
WRIGHT, STEPHEN, M.D. 660 SALT LAKE CITY, UT
FY 87 VA Funding: $106,108

Lymphoid Follicle and Intestinal Epithelial Structure and Function
OWEN, ROBERT L., M.D. 662 SAN FRANCISCO, CA
FY 87 VA Funding: $136,963
FY 87 Extra-VA Funding: $72,167-NIADDK

Clinical Trials in AIDS
ZIEGLER, JOHN L., M.D. 662 SAN FRANCISCO, CA

Arthritis with Neutropenia and Excess Large Granular Lymphocytes
STARKEBAUM, GORDON A., M.D. 663 SEATTLE, WA
FY 87 VA Funding: $ 3,189
FY 87 Extra-VA Funding: $598- Other

Clofazimine for Treatment of M. Avium Intracellular Infections in Patients with AIDS
FIERER, JOSHUA, M.D. 664 SAN DIEGO, CA
FY 87 VA Funding: $ 795

Ansamycin for Treatment of M. Avium Intracellular Infections in Patients with AIDS
FIERER, JOSHUA, M.D. 664 SAN DIEGO, CA
FY 87 VA Funding: $ 795

Phase II Trial of AZT (Azidothmidine) for Patients with AIDS/ARC
RICHMAN, DOUGLAS D., M.D. 664 SAN DIEGO, CA
FY 87 VA Funding: $ 655

Effects of oncogenic viruses on mouse embryo development (title change)
PIKO, LAJOS, Ph.D. 665 SEPULVEDA, CA
FY 87 VA Funding: $126,470

A Seroepidemiologic Study of alpha-HTLV Antibodies in Humans
POIESZ, BERNARD J., M.D. 670 SYRACUSE, NY
FY 87 VA Funding: $87,328
FY 87 Extra-VA Funding: $3,812-Private Proprietary Grant
$22,953-Private Proprietary Grant
$ 53-Other
$47,295-Nat'l Cancer Institute
$93,053-Private Proprietary Grant
$12,405-Other Government Agencies
$ 4,939-Private Proprietary Grant
$283,962-Nat'l Heart, Lung, Blood
$ 6,613-Private Proprietary Grant

Efficacy, safety, toleration of fluconazole given orally in treating fungal diseases in patients with acquired immunodeficiency syndrome (AIDS)
GRAYBILL, JOHN R., M.D. 671 SAN ANTONIO, TX
FY 87 VA Funding: $1,646
FY 87 Extra-VA Funding: $48,763-Private Proprietary Grants

Uncontrolled Clinical Trial of the Long Term Safety of Azidothymidine
SMITH, JEAN ,M.D. 671 SAN ANTONIO, TX
FY 87 VA Funding: $736

HTLV-III/LAV Prevalence and Incidence Among Patients Undergoing Chronic Hemodialysis
KRISTENSEN, CYNTHIA G., M.D. 671 SAN ANTONIO, TX

Ansamycin Therapy of M. Avium-Intracellulare Infections
GORDIN, FRED M., M.D. 688 WASHINGTON, DC
FY 87 Extra-VA Funding: $842 -Other

A Survey of Hospital Staff's Knowledge, Emotional Reactions and Behavior Regarding AIDS Patients
GORDIN, FRED M., M.D. 688 WASHINGTON, DC
FY 87 Extra-VA Funding: $842-Other

Pancreatitis associated with AIDS
GORDIN, FRED M., M.D. 688 WASHINGTON, DC
FY 87 Extra-VA Funding: $842-Other

Azidothymidine (AZT) in the treatment of persons with AIDS
GORDIN, FRED M., M.D. 688 WASHINGTON, DC
FY 87 Extra-VA Funding: $842-Other

Anxiety, Depression and Coping in Patients with AIDS, ARC, and the "Worried Well"
GORDIN, FRED M., M.D. 688 WASHINGTON, DC
FY 87 VA Funding: $8,416

Experimental models for cytomegalovirus infections
GRIFFITH, BRIGITTE P., Ph.D. 689 WEST HAVEN, CT
FY 87 Extra-VA Funding: $40,700-NIAID
$1,100-Private Proprietary Grants

Serologic analysis of CMV and HTLV-III antibody status
HSIUNG, GUEH-DJEN, Ph.D. 689 WEST HAVEN, CT
FY 87 VA Funding: $7,153

Possible Causes of Unexplained Diarrhea in AIDS Patients
FINEGOLD, SYDNEY M., M.D. 691 WEST LOS ANGELES (WADSWORTH DIV
FY 87 VA Funding: $977

Stresses of Hospitalization in the AIDS Patient
HEFFERIN, ELIZABETH A., RN 691 WEST LOS ANGELES

VP16-213 for Treatment of Kaposi's Sarcoma
LICHTENSTEIN, ALAN K., M.D. 691 WEST LOS ANGELES (WADSWORTH DIV
FY 87 VA Funding: $ 865

UCLA-Affiliated Hospitals Surveillance for Acquired Immune Deficiency Syndrome
MULLIGAN, MAURY E., M.D. 691 WEST LOS ANGELES **FY 87 VA Funding: $ 675**

HTLV - III: Intra BBB IgG Synthesis and Hybridization in CSF Cells
TOURTELLOTTE, WALLACE W., M.D., Ph.D. 691 WEST LOS ANGELES (WADSWORTH DIV
FY 87 Extra-VA Funding: $205,082-Other Government Agencies

Immunoregulatory Dysfunction in AIDS
MILSON, THOMAS J., Ph.D. 695 MILWAUKEE, WI

TOTAL VA FUNDING -FY 87 $1,761,086
TOTAL EXTRA-VA FUNDING - FY 87 $47,295 - Nat'l Cancer Institute
$909,060-Nat'l Heart,Lung, Blood
$1,715,445-NIAID
$117,167 -NIADDK
$22,554-Nat'l Inst. of Drug Abuse
$452,697-Other Gov't Agencies
$318,894-Private Proprietary Grants
$283,399-Other
TOTAL EXTRA-VA 4,104,926

ATTACHMENT C

The attached list includes VA research studies supported through the special research intitiative mechanisms.

MAR 15, 1988 VETERANS ADMINISTRATION PAGE 1
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
SPECIAL RESEARCH INITIATIVES
GRECC (AGING)

	FY 88
PRINZ, PATRICIA, Ph.D. Sleep/Waking and EEG Patterns in Dementia: Longitudinal Studies 505 AMERICAN LAKE, TACOMA, WA	$60,939.
AGNELLO, VINCENT, M.D. Characterization of Immune Complexes in Autoimmune Diseases 518 BEDFORD, MA	$23,784.
FINE, RICHARD E., Ph.D. Role of Transferrin in Iron Transfer from the Blood to the Brain 518 BEDFORD, MA	$54,600.
SELTZER, BENJAMIN, M.D. Cortical Connections of Association Cortex 518 BEDFORD, MA	$31,188.
ROWE, JOHN W., M.D. Influence of Age on the Physiology of Atrial Natruiretic Factor (ANF) 525 BROCKTON, MA	$19,004.
MALONE, MICHAEL J., M.D. Senile Dementia: Neurochemical Studies 534 CHARLESTON, SC	$19,798.
LYLES, KENNETH W., M.D. Prevention of Steroid Induced Bone Loss in Chronic Pulmonary Disease 558 DURHAM, NC	$14,512.
ROSEN, GERALD M., Ph.D. The Role of Superoxide in Aging and Cancer 558 DURHAM, NC	$44,613.
GRUNDY, BETTY L., M.D. Effects of Anesthetics on Geriatric Brain Function 573 GAINESVILLE, FL	$56,038.
GOLDSTEIN, SAMUEL, M.D. Genetic Derepression in Aging Human Cells 598 LITTLE ROCK, AR	$31,134.

LIPSCHITZ, DAVID A., M.D., Ph.D.	Neutrophil Function and Aging	598 LITTLE ROCK, AR	$45,451.
CHRISTENSEN, KATHY J., Ph.D.		618 MINNEAPOLIS, MN	$35,564.
MORTIMER, JAMES A., Ph.D.	Clinicopathological Study of Parkinson's Disease	618 MINNEAPOLIS, MN	$52,224.
AZHAR, SALMAN, Ph.D.		640 PALO ALTO, CA	$62,715.
PFEFFERBAUM, ADOLF, M.D.	BRAIN AND BEHAVIORAL CHANGES IN AGING AND DEMENTIA	640 PALO ALTO, CA	$49,796.
TINKLENBERG, JARED R., M.D.	Cognitive Functions in Drug States in the Elderly	640 PALO ALTO, CA	$54,240.
DORSA, DANIEL M., Ph.D.	Steroid Modulation of Brain Vasopressin Systems	663 SEATTLE, WA	$24,078.
GUNION, MARK W., Ph.D.	Brain Opioids: Control of Blood Glucose, FFA, Catcholamines in Aging	665 SEPULVEDA, CA	$50,646.
MOORADIAN, ARSHAG D., M.D.	Effect of Aging and Diabetes Mellitus on Blood-Brain Barrier	665 SEPULVEDA, CA	$37,563.
MAKINODAN, TAKASHI, Ph.D.	Nature of T Cell-Dependent Immunosenescence	691 WEST LOS ANGELES (WADSWORTH DIV.), CA	$93,474.
OOKHTENS, MURAD, Ph.D.	Effect of Age on Synthesis, Turnover and Efflux of Hepatic Glutathione	691 WEST LOS ANGELES (WADSWORTH DIV.), CA	$67,504.
PEKARY, ALBERT EUGENE, Ph.D.	Decline in Thyrotropin Releasing Hormone Biosynthesis with Aging	691 WEST LOS ANGELES (WADSWORTH DIV.), CA	$62,756.
TYAN, MARVIN L., M.D.	Prevention of Age-Related Bone Loss with Promethazine	691 WEST LOS ANGELES (WADSWORTH DIV.), CA	$44,520.

VETERANS ADMINISTRATION
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
SPECIAL RESEARCH INITIATIVES
SCHIZOPHRENIA

FY 1988

DAVIS, KENNETH L., M.D. Schizophrenia Biological Research Center 526 BRONX, NY	$378,665

MAR 15, 1988 VETERANS ADMINISTRATION PAGE 1
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
SPECIAL RESEARCH INITIATIVES
DELAYED STRESS DISORDERS OF VIETNAM VETERANS
FY 1988

CHEMTOB, CLAUDE M., Ph.D.
Cognitive Dysfunction in Post Traumatic Stress Disorder Patients
359 HONOLULU, HI $48,884.

FRIEDMAN, MATTHEW J., M.D., Ph.D.
Precursors to the Later Development of PTSD: The Dartmouth Class of 1968
405 WHITE RIVER JUNCTION $57,000.

BOUDEWYNS, PATRICK A., Ph.D.
Direct Therapeutic Exposure in the Treatment of Post-Traumatic Stress
509 AUGUSTA, GA $45,016.

KEANE, TERENCE M., Ph.D.
Behavior Therapy and Pharmacotherapy in Treating PTSD in Vietnam Veteran
523 BOSTON, MA $62,370.

ALEEM, ASAF, M.D.
Clinical Physiological and Metabolic Effects of Lactate Infusion in PTSD
553 ALLEN PARK, MI $57,819.

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VETERANS ADMINISTRATION
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
SPECIAL RESEARCH INITIATIVES
SPINAL CORD INJURY AND REGENERATION

	FY 1988
FERINGA, EARL R., M.D. Nervous System Injury and Repair 509 AUGUSTA, GA	$55,728.
RAINEY, WILLIAM T., Ph.D. 535 CHICAGO, (LAKESIDE), IL	$38,950.
DAVIDOFF, ROBERT A., M.D. Afferent Processing in the Spinal Cord 546 MIAMI, FL	$78,200.
BICKFORD-WIMER, PAULA C., Ph.D. 554 DENVER, CO	$29,925.
DEMEDIUK, PAUL, Ph.D. 662 SAN FRANCISCO, CA	$9,818.
RUSSELL, LISA C., Ph.D. 663 SEATTLE, WA	$8,489.

VETERANS ADMINISTRATION
RESEARCH AND DEVELOPMENT INFORMATION SYSTEM
SPECIAL RESEARCH INITIATIVES
ALCOHOLISM

FY 1988

BROWN, SANDRA, Ph.D. Stressful Life Events and Alcoholism Treatment Outcome 664 SAN DIEGO, CA	$48,136.

The attached list provides the titles, names of the principal investigators. VA medical center location and funding of VA/DOD direct scientific collaborations to be funded April 1, 1988.

VA/DoD Joint Projects
Approved-to be Funded April 1, 1988

VAMC Albany, NY KOEPPEN, ARNULF H. W., M.D.
DOD Uniformed Services Univ. of Health Sciences BORKE,ROSEMARY Ph.D.
Brain Hemosiderin Estimated Annual Funding:$70,000

VAMC Albuquerque, NM SCREMIN, OSCAR U., M.D., Ph.D.
DOD Army Medical Research Inst. of Chemical Defense SHIN,TSUNG-MINK
Effects of Cholinesterase Inhibitors on Brain Metabolism and Blood Flow
Estimated Annual Funding:$100,800

VAMC American Lake, WA SILVERMAN, DAVID, M.D.
DOD Madigan Army Medical Center SMITH, STEVEN M.D.
Evaluation of a Geriatric Unit Serving Frail Elderly Surgery Patients
Estimated Annual Funding:$72,100

VAMC Bath, NY PRIZONT, ROBERTO, M.D
DOD Walter Reed Army Institute of Research FORMAL, SAMUEL, Ph.D.
Presence of Blood Group Glycosidases in Shigella Strains Containing a Large Plasmid Responsible for Virulence
Estimated Annual Funding:$24,500

VAMC Charleston, SC CANTEY, J. ROBERT, M.D.
DOD Walter Reed Army Institute of Research BOEDEKER, EDGAR M.D.
Mechanism of close Adherence of Escherichia coli to Gut Epithelial Cells
Estimated Annual Funding:$55,500

VAMC Columbia, MO VOLKERT, W.A., PH.D.
DOD Naval Hospital, Oakland CA DRESSER, THOMAS M.D.
99mTc-HMPAO Labeled leukocytes and Platelets: Basic and Clinical Studies
Estimated Annual Funding:$93,400

VAMC Miami,FL ISAACKS, RUSSELL E., Ph.D.
DOD Uniformed Services Univ. of Health Services BONGER,RALPH M.D.
Regulation of Blood Oxygen Affinity by Metabolites from Cardiac Myocytes
Estimated Annual Funding:$79,650

VAMC Denver, CO BROWN, WILLIAM R., M.D.
DOD Walter Reed Army Institute of Research MCQUEEN,CHARLES M.D.
Immunological Studies on an Enteroadherent E. coli Diarrhea Model
Estimated Annual Funding:$78,900

VAMC Durham,NC DAVIS, JAMES N., M.D.
DOD Uniformed Services Univ. of Health Sciences FEURSTEIN,GLORIA
Neurotransmitter Regulation of Ishemic Brain Damage
Estimated Annual Funding:$149,200

VAMC Durham, NC PATRICK, CLIFFORD, Ph.D.
DOD Walter Reed Army Hospital BROWN, HERBERT
The Natural History of Spinal Cord Injury
Estimated Annual Funding:$103,700

VA/DoD Joint Projects
Approved-to be Funded April 1, 1988

VAMC East Orange,NJ NATELSON, BENJAMIN H., M.D.
DOD Walter Reed Army Institute of Research HURSH,STEPHEN Ph.D.
Workload, Cognition & Entrainment of circadian Rhythms
Estimated Annual Funding:$108,100

VAMC East Orange,NJ SVED, ALAN F., Ph.D.
DOD Uniformed Services Univ. of Health Sciences HELKE,CINDA Ph.D.
Excitatory Amino Acid Neurotransmission in the Baroreceptor Reflex
Estimated Annual Funding:$115,000

VAMC Kansas City, MO JUSTESEN, DON R., Ph.D.
DOD Naval Aerospace Medical Research Lab OLSEN,RICHARD Ph.D.
Mitigation of Hypothermic Insult by RF Radiation
Estimated Annual Funding:$106,100

VAMC Livermore, CA BRAUTIGAM, ALAN R., M.D., PH.D.
DOD Armed Forces Radiobiology Research Inst. SWENBERG, C.E. Ph.D.
Quantitation of Cellular Repair of Adenovirus DNA Double-strand Breaks
Estimated Annual Funding:$58,100

VAMC Long Beach, CA WILSON, RICHARD H., Ph.D.
DOD Naval Submarine Medical Research Lab MARSHALL,LYNNE Ph.D.
Psychophysical Procedures for Auditory Measures with Naive Subjects
Estimated Annual Funding:$85,700

VAMC Louisville, KY CHANGARIS, DAVID G., M.D.
DOD Tripler Army Medical Center CLAYBAUGH, JOHN Ph.D.
Alternate Pathways for the Release of Vasopressin
Estimated Annual Funding:$96,600

VAMC Loma Linda, CA BONNET, MICHAEL H., Ph.D.
DOD San Diego Naval Hospital SPINWEBER, CHERYL
Amelioration of Performance Deficit Associated with Continuous Operation
Estimated Annual Funding:$157,500

VAMC Minneapolis, MN MOLDOW,-CHARLES F., M.D.
DOD Uniformed Services Univ of Health Sciences RICK, Paul Ph.D.
Induction of Endothelial Tissue Factor by Endotoxin and its precursors
Estimated Annual Funding:$125,800

VAMC Nashville, TN COLLEY, DANIEL G., Ph.D.
DOD Naval Medical Research Inst. KAMEL, KARIM Ph.D.
Detection of Antigenemia in Murine and Human Schistosomiasis
Estimated Annual Funding:$71,900

VAMC New Orleans, LA KASTIN, ABBA J., M.D.
DOD Walter Reed Army Medical Center HOLADAY, JOHN
Endogenous Antiopiate Peptides
Estimated Annual Funding:$123,400

VA/DoD Joint Projects
Approved-to be Funded April 1, 1988

VAMC Palo Alto, CA MAZE, MERVYN, M.B., Ch.B.
DOD Letterman Army Medical Center OWENS, BRYAN M.D.
Perioperative use of Clonidine as an Adjunctive Anesthetic Agent
Estimated Annual Funding:$74,600

VAMC Palo Alto, CA MEYER, TIMOTHY W., M.D.
DOD David Grant Medical Center NOLAN, CHARLES
Long-Term Sequelae of Uninephrectomy in Humans
Estimated Annual Funding:$38,400

VAMC Pittsburgh (UD),PA SAX, MARTIN, Ph.D.
DOD Army Medical Research Inst. of Infect.Dis. CRUMINE, MARTIN
The 3D Structures and the Activities of Some Foodborn Bacterial Toxins
Estimated Annual Funding:$53,600

VAMC Portland, OR ANSEL, JOHN C., M.D.
DOD Walter Reed Army Medical Center MELTZER, MONTE M.D.
Effect of Ultraviolet Irradiation on Autoimmunity
Estimated Annual Funding:$66,700

VAMC Richmond, VA CARR, MARCUS E., JR., M.D., Ph.D.
DOD Walter Reed Army Medical Center ALVANG, BARBARA,M.D.
The Impact of Clot Structure on Fibrinolysis
Estimated Annual Funding:$49,300

VAMC San Francisco, CA GERTZ, EDWARD W., M.D.
DOD Naval Health Center RIEDY, MARK Ph.D.
Myocardial Metabolism and Function: Role of Diet and Exercise in Ishemia
Estimated Annual Funding:$138,800

VAMC San Francisco, CA GRIFFISS, J. MC LEOD, M.D.
DOD Walter Reed Army Institute of Research SCHNEIDER, HERMAN Ph.D.
Structural Analysis of Gonococcal Lipooligosaccharide
Estimated Annual Funding:$115,800

VAMC San Francisco, CA KIM, YOUNG S., M.D.
DOD Walter Reed Army Institute of Research BOEDEKER, EDGAR M.D.
Mucosal Receptors for Adherent, Pathogenic E. Coli
Estimated Annual Funding:$119,200

VAMC San Francisco, CA OWEN, ROBERT, M.D.
DOD Armed Forces Radiobiology Research Institute MCVITTIE, THOMAS
Effect of Irradiation M Cell Structure and Function
Estimated Annual Funding:$46,900

VAMC San Diego, CA KRIPKE, DANIEL F., M.D.
DOD Naval Health Research Center NAITOH, PAUL, Ph.D.
Bright Light Amelioration of Shift Work
Estimated Annual Funding:$109,100

VA/DoD Joint Projects
Approved-to be Funded April 1, 1988

VAMC San Antonio,TX BOLDT, DAVID H., M.D.
DOD Brooke Army Medical Center BROWN,THOMAS M.D.
Treatment of Malignant Gliomas with LAK/IL-2
Estimated Annual Funding:$128,500

VAMC San Antonio,TX HECKMAN, JAMES D., M.D.
DOD Wilford Hall Medical Center EBLER, WILLIAM, D.V.M.
Use of Bone Morphogenetic Protein for Repair of Osseous Defects
Estimated Annual Funding:$64,500

VAMC San Antonio, TX PUGH, JACQUELINE, M.D.
DOD Brooke Army Medical Center
Diabetic Retinopathy Screening: the Non-Mydriatric Retinal Camera
Estimated Annual Funding:$72,018

VAMC San Antonio,TX SCHENKER, STEVEN, M.D.
DOD Brooke Army Medical Center GOLDER, FRED M.D.
Nicotine Pharmacokinetics: Effect on Gastric Acid Secretion and on Reflux
Estimated Annual Funding:$22,300

VAMC Seattle, WA DEYO, RICHARD, M.D.
DOD Madigan Army Medical Center LEDNEY, WAYNE Ph.D.,M.D.
Effects of an Employee Fitness Program on Back Injuries
Estimated Annual Funding:$50,000

VAMC Seattle, WA LANGDALE, LORRIE A., M.D.
DOD Madigan Army Medical Center HARTMAN, KIP M.D.
Surgical Resuscitation: The Role of Blood Substitutes
Estimated Annual Funding:$98,900

VAMC Washington, D.C. HARMON, JOHN W., M.D.
DOD Uniformed Services Univ of Health Sciences BATZAIR, SAMUEL Ph.D.
Surgical Gastroenterology - Mechanisms of Gastric Mucosal Injury and
Protection Estimated Annual Funding:$65,200

VAMC Wadsworth, CA WALSH, JOHN H., M.D.
DOD Uniformed Services Univ of Health Sciences CUTTITTA, FRANK Ph.D.
Gastrin Releasing Peptides: Autocrine Regulators of Colon Cancer Growth
Estimated Annual Funding:$150,200

VAMC Milwaukee, WI KLEINMAN, JACK G., M.D.
DOD Walter Reed Army Institute of Research GRILLO, GREG M.D.
Na(Supra +)-H(Supra +) Exchange in Renal Papillary Collecting Duct
Estimated Annual Funding:$72,400
Total Annual Funding:$4,136,386

PREPARED STATEMENT OF HON. JOSEPH P. KENNEDY, II

THANK YOU, MR. CHAIRMAN.

OVERALL, I'M PLEASED BY THE COMMITTEE'S RECOMMENDATIONS FOR THE VA BUDGET. IN PARTICULAR, SEVERAL FEATURES GO FAR TO ADDRESS CERTAIN AREAS THAT I THINK THE VA SHOULD BE MORE CONCERNED ABOUT. VA HOSPITALS HAVE CARED FOR A TOTAL OF 3,600 VETERANS WITH AIDS, AND ANTICIPATE AN INCREASE TO 5,400 BY THE END OF THE YEAR. APPARENTLY THE VA TREATS THIS CRISIS SO LIGHTLY THAT ITS OWN BUDGET INCLUDED NO MONEY FOR THE CARE OF PATIENTS. I'M PLEASED TO SEE THE COMMITTEE REPORT INCLUDES A TRANFER OF $75 MILLION TO THE VA FOR THE PRESIDENT'S AIDS BUDGET.

FURTHERMORE, GENERAL TURNAGE SEEMED TO WANT TO CONDUCT THE VA'S

PROGRAM FOR THE HOMELESS WITHOUT ANY MONEY. THE COMMITTEE REPORT WISELY REINSTATES $15 MILLION FOR THE HOMELESS PROGRAM AT VA MEDICAL CENTERS. THIS IS A RELATIVELY RECENT PROGRAM, AND I THINK WE MIGHT WANT TO EXAMINE IT LATER THIS YEAR TO SEE WHETHER THAT IS ENOUGH TO EFFECTIVELY TREAT HOMELESS VETERANS, OR WHETHER WE NEED TO FOCUS ON CREATING SHELTERS AS WELL AS HOSPITAL BEDS IN THE URBAN AREAS.

THE REINSTATEMENT OF 500 EMPLOYEES WITHIN THE DEPARTMENT OF VETERANS BENEFITS AND THE ADDITION OF ANOTHER 200 WILL ALLEVIATE SOME OF THE BACKLOG AND DELAY IN PROCESSING CLAIMS. I KNOW THE BOSTON OFFICE HAS EXPRESSED REAL FRUSTRATION AT BEING ABLE TO CARRY OUT

ITS MISSION, AND I'M SURE THAT FEELING HAS BEEN SHARED AT VA REGIONAL OFFICES ALL AROUND THE COUNTRY.

I'D LIKE TO COMMEND THE CHAIRMAN ON THIS REPORT. IT CLEARLY SUPERCEDES THE ALLOTMENT PRESIDENT REAGAN WOULD HAVE GIVEN THE MEN AND WOMEN WHO SERVED THEIR COUNTRY. CHAIRMAN MONTGOMERY AND HIS STAFF HAVE A MORE REALISTIC VIEW OF VETERANS SERVICES THAN DO THE VA'S BUDGET OFFICE AND OMB.

THANK YOU.

MS. KAPTUR

MR. ADMINISTRATOR, THIS BUDGET REFLECTS THE FACT THAT THE VA HOME LOAN GUARANTY PROGRAM IS ON THE BRINK FINANCIALLY.

THIS SHOULD BE OF NO SURPRISE TO ANYONE SINCE SO MANY OF THE PREVIOUS BUDGETS HAVE BEEN DIRECTED ONLY TOWARD A SINGLE YEAR'S BUDGET OUTLAY RATHER THAN TOWARD A RESPONSIBLE LONG-TERM APPROACH. TO THAT END, YOU ARE STILL PROPOSING TO SELL YOUR LOAN PORTFOLIO ASSETS WITHOUT RECOURSE, A PROCEDURE WHICH HAS RESULTED IN BIDS RANGING FROM 15 TO 55 CENTS ON THE DOLLAR. YOUR LAST SALE, WITH RECOURSE, RESULTED IN 105 CENTS ON THE DOLLAR. YOU SHOULD BE CONSIDERING MAXIMIZING YOUR RETURNS.

THE SAME HOLDS TRUE FOR SOME OF YOUR POLICIES REGARDING PROPERTY SALES. I HAVE BEEN ADVISED THAT AUCTIONS IN HOUSTON, TEXAS, FOR EXAMPLE, HAVE NETTED YOU ABOUT 40 CENTS ON THE DOLLAR.

FRANKLY, I AM DISTURBED ABOUT THIS, AND IT IS MY INTENT TO HOLD A HEARING ON THE SOLVENCY OF THE PROGRAM IN A FEW WEEKS. LASTLY, I WANT TO EXPRESS MY DISPLEASURE AT THE FACT THAT THE CONGRESS HAS NOT AS OF YET RECEIVED OFFICIAL NOTIFICATION OF THE NEED FOR A SUPPLEMENTAL FOR THE REMAINDER OF FISCAL YEAR 1988. IT IS MY UNDERSTANDING THAT THE FUND COULD POSSIBLY BE IN A POSITION AS EARLY AS APRIL 1 WHERE IT COULD NOT MEET ITS OBLIGATIONS UNDER THE GUARANTY TO PAY CLAIMS AND PROPERTY ACQUISITION COSTS.

OPENING REMARKS OF
HONORABLE CHRIS SMITH,
VETERANS' AFFAIRS COMMITTEE
HEARING TO REVIEW VA BUDGET FOR FY 1989
MARCH 2, 1988

Thank you Mr. Chairman.

Mr. Chairman, I would like to commend both you and Mr. Solomon, the Vice Chairman of our Committee, for setting up these two days of hearings to review the VA budget for FY 1989.

As the Ranking Minority Member of the Subcommittee on Education, Training, and Employment, I am particularly interested in some of the changes proposed in the FY '89 Budget which concern the Veterans' Job Training Program and Vocational Rehabilitation and Counseling Program.

In addition, I was pleased to see in the VA Budget, the authorization of funds for the Ocean County, NJ, outpatient clinic. As the majority of my colleagues are aware, I strongly support the establishment of this clinic-- an amendment that I authored and attached to HR 2616, the Veterans' Administration Health Care Amendments of 1987, would require the VA to establish and operate the clinic.

As the VA has found, the need for this clinic is overwhelming. From Ocean County alone, the VA estimates that the outpatient center would receive 52,000 veterans per year. That is more than three times the minimum number of visits required to justify a VA clinic.

I anticipate that authorization of funds for the lease of the outpatient clinic will ensure implementation of this project in the most expedient manner possible.

Mr. Chairman, I look forward to hearing the testimony of Mr. Turnage and to further exploring some of the changes proposed by the VA.

HONORABLE G. V. (SONNY) MONTGOMERY

CONTINUATION OF HEARINGS ON PRESIDENT'S FY 1989 VA BUDGET

The Committee will be in order.

Today we will continue our hearings on the Administration's proposed '89 budget for the Veterans Administration. Yesterday we heard from the Administrator and his staff. Today, we will hear from the veterans' organizations. Last Friday, I mailed to each organization a copy of the brief analysis of the President's proposed budget prepared by the Committee staff. I hope everyone had an opportunity to read it. I regret there is so little time to review the budget documents prior to the hearing. Since we must report our recommendations to the Budget Committee by March 8, we had to do the best we could.

The Administration's budget is very misleading. It proposes budget authority for the next fiscal year in excess of $30 billion - an apparent increase of $2 billion over budget authority in 1988. A closer look, however, reveals that about one-half of the increase would go to pay for the Administration's controversial credit reform legislation ($1.1 billion). The rest of this $2 billion difference is a result of understating the 1988 budget by over a billion dollars. In fact, in real terms, if you back out credit reform and factor in the supplementals required to get through the current fiscal year, the estimated budget authority for 1989 is $178 million lower than 1988.

There are many deficiencies. For example, the medical care budget is $10.3 billion, an increase of 2% from last year, less than one-half the inflation rate projected by CBO for next year. This means the medical care budget is a deficit budget.

We believe it is short about $370 million of a VA-projected current services budget. The budget includes a proposed decrease of 2,439 employees.

The Administration is requesting about $1.3 billion for AIDS, but none of the funds would go to the VA.

The budget proposes no funds for care of homeless veterans.

For the Department of Veterans Benefits, the budget calls for a reduction of 492 FTEE.

Funds for DVB's long-awaited computer modernization program appears to have been dropped from the budget.

OMB policy of forcing the sale of VA home loans at great discounts and other decisions to reflect a brighter budget picture from one year to another has finally depleted the revolving fund. A supplemental of $527 million is expected to be sent to the Hill. There is a current need for a billion dollars.

If the supplemental is not passed before the end of March, the VA may not be able to pay outstanding claims by the end of the month.

In contrast to what I have said about the Administration's budget, let me congratulate the first panel of witnesses on the budget you have compiled. It is an excellent document -- one that reflects a lot of research, hard work and compromise. I suggested to the Administrator yesterday that he and his staff review your proposed independent budget and that he have VA representatives at today's hearings to hear what you have to say. I look forward to your testimony.

So that Members will have as much time as possible for questions, I ask that each of you take 5 minutes to summarize your statement. Your entire statement will be included as part of the hearing record.

Mr. Magill, since you are the first witness, we understand you will present brief opening remarks for the group and explain that portion of the independent budget which the VFW will cover, so we will give you a little more time.

Yesterday we had some lively discussions with the Administrator when we pointed out deficiencies in the budget he attempted to defend. I cannot find fault with the budget you all have recommended. When we make our recommendations to the Budget Committee, you will find my views close to yours. Your funding levels are more in line with my thinking than the levels proposed by the Administration. I generally agree with the policies you have adopted and your document includes justification for your recommendations.

Your organizations have spent a lot of time on this budget and I believe the organizations will be able to see good results when the legislative and appropriations agendas are completed later this year. Keep up the good work.

STATEMENT OF THE HONORABLE MICHAEL BILIRAKIS
HEARING ON THE PRESIDENT'S PROPSED VA BUDGET FOR FY89
MARCH 3, 1988

THANK YOU MR. CHAIRMAN, FOR THIS OPPORTUNITY TO BRIEFLY WELCOME OUR DISTINGUISHED WITNESSES AND GUESTS AND TO MENTION A FEW OF MY CONCERNS REGARDING THE PRESIDENT'S VA BUDGET FOR FISCAL YEAR 1989.

YESTERDAY MORNING THIS COMMITTEE HEARD FROM GENERAL TURNAGE, THE ADMINISTRATOR OF THE VETERANS ADMINISTRATION, MR. HARVEY AND THE OTHER VA STAFF ON THE BUDGET. I LOOK FORWARD TO HEARING THE TESTIMONY FROM REPRESENTATIVES OF OUR FINE VETERANS ORGANIZATIONS THIS MORNING.

ON A POSITIVE NOTE, I AM EXTREMELY PLEASED THAT THE VA HAS INCLUDED A REQUEST FOR $6.7 MILLION FOR THE 120-BED NURSING HOME UNIT IN TAMPA, FLORIDA. AS I HAVE STATED QUITE OFTEN BEFORE THIS COMMITTEE, THE STATE OF FLORIDA, AND PARTICULARLY THE 9TH DISTRICT WHICH I AM HONORED TO REPRESENT, IS HOME TO A RAPIDLY ESCALATING ELDERLY POPULATION AND VETERAN POPULATION.

ALTHOUGH I AM CERTAIN THE VETERANS OF FLORIDA ARE DEEPLY APPRECIATIVE OF THIS FUNDING FOR THE TAMPA NURSING HOME, THERE IS STILL A GREAT NEED FOR A MUCH MORE AGGRESSIVE EXPANSION OF VA MEDICAL CARE AND FACILITIES IN FLORIDA.

MY CONCERNS REGARDING THE PRESIDENT'S PROPOSED BUDGET ARE MANY BUT I WANT TO BRIEFLY HIGHLIGHT THE MORE EGREGIOUS.

-- THE MEDICAL CARE BUDGET FOR FISCAL YEAR 1989 IS 410.3 BILLION WHICH IS LESS THAN HALF OF CBO'S PROJECTION OF A RISE IN INFLATION OF 4.5% AND ONLY 1/3RD OF THE PROJECTED RISE IN THE MEDICAL CONSUMER PRICE INDEX.

-- THE MEDICAL CARE BUDGET FALLS $370 MILLION SHORT OF THE VA'S PROJECTED CURRENT SERVICES BUDGET.

-- THE MEDICAL CARE BUDGET PROPOSES A DECREASE IN MEDICAL CARE PERSONNEL OF 4,270 FTEE (AVERAGE OF FULL-TIME EQUIVALENT EMPLOYMENT).

-- THE ADMINISTRATION PROPOSES A DECREASE OF $22.1 MILLION IN CONSTRUCTION OF VA MEDICAL FACILITIES.

-- ONE DEEP CONCERN OF MINE IS THE PROPOSED DECREASE OF 79 FTEE AND $4.7 MILLION FOR THE VET CENTER PROGRAM. SINCE THE PROGRAM'S INCEPTION IN 1980, OVER 430,000 VIETNAM VETERANS AND THEIR FAMILIES HAVE RECEIVED READJUSTMENT SERVICES THROUGH THE COMMUNITY BASED STOREFRONT VET CENTERS. I AM ABSOLUTELY OPPOSED TO THE VA'S DECISION TO CLOSE DOWN OR REDUCE STAFF AT THESE MUCH-NEEDED CENTERS.

-- THE PRESIDENT'S BUDGET DOES NOT CONTAIN ANY FUNDING FOR THE VETERANS' JOB TRAINING ACT NOR ANY REQUEST FOR AN EXTENSION OF THE PROGRAM WHICH TERMINATES JUNE 30, 1988. THERE ARE OVER 340,000 UNEMPLOYED VIETNAM-ERA VETERANS AS OF DECEMBER 1987 WHO MOST CERTAINLY COULD BENEFIT FROM AN EXTENSION OF THIS PROGRAM.

I BELIEVE THAT CONGRESS MUST ACT NOW TO CONTROL THE DEFICIT -- BUT I MUST REITERATE MY STRONG OPPOSITION TO BALANCING THE FEDERAL BUDGET ON THE BACKS OF THOSE BRAVE MEN AND WOMEN WHO SERVED THIS NATION IN A TIME OF NEED. THE VA BUDGET HAS TAKEN ITS FAIR SHARE OF CUTS -- WE MUST LIVE UP TO OUR COMMITMENT TO OUR NATION'S VETERANS.

THANK MR. CHAIRMAN.

Statement of the Hon. Bob McEwen
VA Budget Hearing

Thank you, Mr. Chairman. I appreciate the opportunity to hear these witnesses from the veterans organizations on the budget proposal for the Veterans Administration.

Mr. Chairman, we are talking about a substantial amount of money for a myriad of veterans programs. In my view, the amount requested to properly and efficiently administer the Veterans Administration is not way off target. However, it would appear that this budget proposal is not enough to maintain the current services at the VA.

I believe that all of our witnesses today will testify that some $370 to $400 million needs to be added to the medical budget.

I believe they will also testify that some five-hundred employees need to be added to the requested number at the Department of Veteran's Benefits.

They will also probably suggest a modest increase in the construction budget.

I do not feel that these additions are budget busters. And as indicated yesterday by the questions and comments directed to the Veterans Administration, it would appear that they are justified.

Mr. Chairman, the "Independent Budget" suggested by the Paralyzed Veterans of America, the Veterans of Foreign Wars, AmVets, and the Disabled American Veterans needs special mention. I believe that it will be very helpful to our committee in making our recommendations to the Budget Committee. I congratulate those individuals who drafted it.

Thank you Mr. Chairman.

OPENING REMARKS OF
HONORABLE CHRIS SMITH,
VETERANS' AFFAIRS COMMITTEE
HEARING TO REVIEW VA BUDGET FOR FY 1989
MARCH 3, 1988

Thank you Mr. Chairman.

Mr. Chairman, I appreciate your initiative in scheduling these two days of hearings to review the VA budget for FY 1989.

I believe yesterday's hearing demonstrated not only our Committee's disatisfaction with many of the proposed budget cuts but also our commitment to restore many of the services which would be affected by these cuts.

As the Ranking Minority Member of the Subcommittee on Education, Training, and Employment, I am particularly interested in some of the changes proposed in the FY '89 Budget which concern the Veterans' Job Training Program and Vocational Rehabilitation and Counseling Program.

The excessive reductions of FTEE in the VA proposal is clearly unacceptable. From the Vocational Rehabilitation and Counseling program alone, a reduction of 11 FTEE is proposed. Our Committee's data on the program indicates an increased workload for the vocational rehabilitation specialists who work within the program, and longer processing periods for program applicants and participants. The workload for the vocational rehabilitation specialist has steadly risen over the past years and reached 195 by the end of 1987. A reasonable workload has been determined to be 150. These are not conditions which can tolerate further staff cuts.

I look forward to hearing the views of the veterans' service organizations who have worked so ardently in preparing their own budget proposal.

STATEMENT BY

THE HONORABLE GERALD B. SOLOMON

THANK YOU MR. CHAIRMAN,

FOR THE PAST SEVERAL YEARS, THIS COMMITTEE HAVE BEEN FACED WITH MORE AND MORE DIFFICULT CHALLENGES AS THE FEDERAL DEFICIT IS REDUCED. BY WORKING TOGETHER AS A BIPARTISIAN GROUP WITH A SHARED CONCERN FOR VETERANS, WE HAVE ALWAYS BEEN ABLE TO MAINTAIN A BASICALLY CURRENT SERVICES BUDGET FOR THE VETERANS ADMINISTRATION.

FOR FISCAL YEAR 1989, OUR GOAL SHOULD BE NO DIFFERENT. A CURRENT SERVICES BUDGET FOR THE VA IS UNQUESTIONABLY JUSTIFIED BOTH BY THE OVERALL PERFORMANCE OF THE VA WITH THE BUDGET DOLLARS IT HAS ALREADY RECEIVED, AND BY THE REAL NEEDS OF VETERANS.

MR. CHAIRMAN, IN THE AREA OF HEALTH CARE, THE VA EACH YEAR HAS BEEN TREATING MORE VETERANS AS INPATIENTS AND OUTPATIENTS WITHOUT SPENDING MORE MONEY, WHEN EXPENDITURES ARE ADJUSTED FOR INFLATION. THIS IS A NOTEWORTHY ACHIEVEMENT.

YET THERE IS A LIMIT TO WHAT IS POSSIBLE, AND THE PROPOSED FY 1989 BUDGET WOULD SIMPLY STRETCH THE VA BEYOND WHAT THE AGENCY CAN REASONABLY BE EXPECTED TO DO, PARTICULARLY IN HEALTH CARE, BUT ALSO IN THE DELIVERY OF OTHER VETERANS' ENTITLEMENT BENEFITS. THE VA CANNOT STAND ANY MORE STAFFING CUTS WHILE CONTINUING TO TREAT THE SAME NUMBER OF PATIENTS, WITHOUT LOWERING THE LEVEL OF QUALITY.

HOSPITAL BEDS ARE BEING CLOSED FOR LACK OF STAFF AND I AM TOLD IT CAN TAKE MONTHS TO BE SEEN AT SOME OUTPATIENT CLINICS.

THE REMAINING STAFF OF DEDICATED HEALTH CARE PROFESSIONALS IS TOO OFTEN OVERWORKED AND UNDERPAID, AND WHO COULD BLAME THEM IF THEY BEGIN TO FEEL DISCOURAGED?

I AM NOT PAINTING A PRETTY PICTURE BECAUSE IT IS NOT A PRETTY PICTURE. THE PROPOSED $10.3 BILLION FOR HEALTH CARE IS 2% MORE THAN LAST YEAR, BUT IS STILL ABOUT $370 MILLION SHORT OF A CURRENT SERVICES BUDGET, BECAUSE THE RISE IN INFLATION IS EXPECTED TO BE ABOUT 4.5%. HOW THE VA WILL BE MORE PRODUCTIVE USING HIGH TECHNOLOGY MEDICAL PROCEDURES IS BEYOND ME, WHEN A DECREASE OF $34.4 MILLION IS PLANNED FOR THE PURCHASE OF HIGH TECHNOLOGY MEDICAL EQUIPMENT AND DEVICES.

MR. CHAIRMAN, I INTEND TO KEEP MY COMMENTS BRIEF, BUT THERE IS ONE OTHER PART OF THE PROPOSED BUDGET WHICH I WANT TO MENTION. THE HOME LOAN GUARANTY PROGRAM HAS HISTORICALLY BEEN ONE OF THE MOST SUCCESSFUL VA PROGRAMS FOR VETERANS, AND IT ENJOYS THE CONTINUING STRONG SUPPORT OF THE COMMITTEE. HOWEVER, WITH A COST OF OVER $900 MILLION FOR FISCAL YEAR 1988, AND A REQUEST FOR $658 MILLION FOR FISCAL YEAR 1989, THE SHORTFALLS IN THE LOAN GUARANTY REVOLVING FUND WHICH ARE REFLECTED BY THESE REQUESTS ARE SOON GOING TO DROWN THE PROGRAM IN RED INK, IF SOMETHING IS NOT DONE.

THE PROGRAM USED TO BE SELF SUSTAINING, AND WE OUGHT TO GET IT BACK TO A SELF SUSTAINING POSITION. I AM GOING TO MAKE IT A TOP PRIORITY TO FIND OUT WHAT IS WRONG IN THE PROGRAM AND TO WORK WITH YOU, MR. CHAIRMAN, AND WITH MARCY KAPTUR AND DAN BURTON, SO THAT WE MAY SAVE THIS VERY VALUABLE PROGRAM FOR AMERICA'S VETERANS, WHO HAVE BENEFITED SO GREATLY FROM IT.

MR. CHAIRMAN, I HAVE A NUMBER OF QUESTIONS FOR THE VA ON THE SPECIFICS OF THE PROPOSED BUDGET FOR THE COMING YEAR, AND I'LL CONCLUDE FOR NOW WITH THE OBSERVATION THAT THE VA'S PROPOSED BUDGET APPEARS TO BE WELL INTENDED, BUT IT JUST ISN'T ENOUGH TO MAINTAIN THE CURRENT LEVEL OF VETERANS BENEFITS TO WHICH WE ARE COMMITTED.

THANK YOU MR. CHAIRMAN.

STATEMENT BY JOHN PAUL HAMMERSCHMIDT ON THE 1988 VETERANS ADMINISTRATION BUDGET

THANK YOU MR. CHAIRMAN,

BEFORE I COMMENT ON THE BUDGET I WISH TO SPEAK FOR JUST A MOMENT ABOUT VA MEDICINE. DURING THE DEBATE ON LEGISLATION TO ELEVATE THE VA TO A CABINET DEPARTMENT, WE HAVE SEEN A NUMBER OF NEWS STORIES SUGGESTING THAT THE VA SHOULD GET OUT OF THE MEDICAL BUSINESS OR THAT THE VA SHOULD BE FOLDED INTO THE DEPARTMENT OF HEALTH AND HUMAN SERVICES. AS THE RANKING MEMBERS OF THE SUBCOMMITTEE ON HOSPITALS AND HEALTH CARE I KNOW THAT THESE NEWS STORIES ARE SADLY MISINFORMED AND ARE A DISSERVICE TO VETERANS.

CERTAINLY, THE VA SYSTEM IS NOT PERFECT. HOWEVER, IT IS A SYSTEM THAT IS LINKED TO THE PRIVATE SECTOR BY ITS EXCELLENT MEDICAL SCHOOL AFFILIATIONS. IT IS INVOLVED IN IMPORTANT RESEARCH. AND IT IS INVOLVED IN GIVING GOOD TREATMENT TO GOOD PEOPLE --- THE VETERANS OF OUR NATION'S WARS.

FOR MY PART -- AND I BELEIVE THAT SAME IS TRUE FOR THE VAST MAJORITY OF THE CONGRESS -- I WILL RESIST ANY EFFORT TO DISMANTLE THE VA MEDICAL SYSTEM. I WILL RESIST ANY ATTEMPT TO BAIL OUT OVER-BEDDED NON-VA HOSPITALS BY THE ESTABLISHMENT OF A VOUCHER SYSTEM. AND I WILL RESIST EFFORTS TO REDUCE THE VA PROGRAM BELOW A CURRENT SERVICES LEVEL.

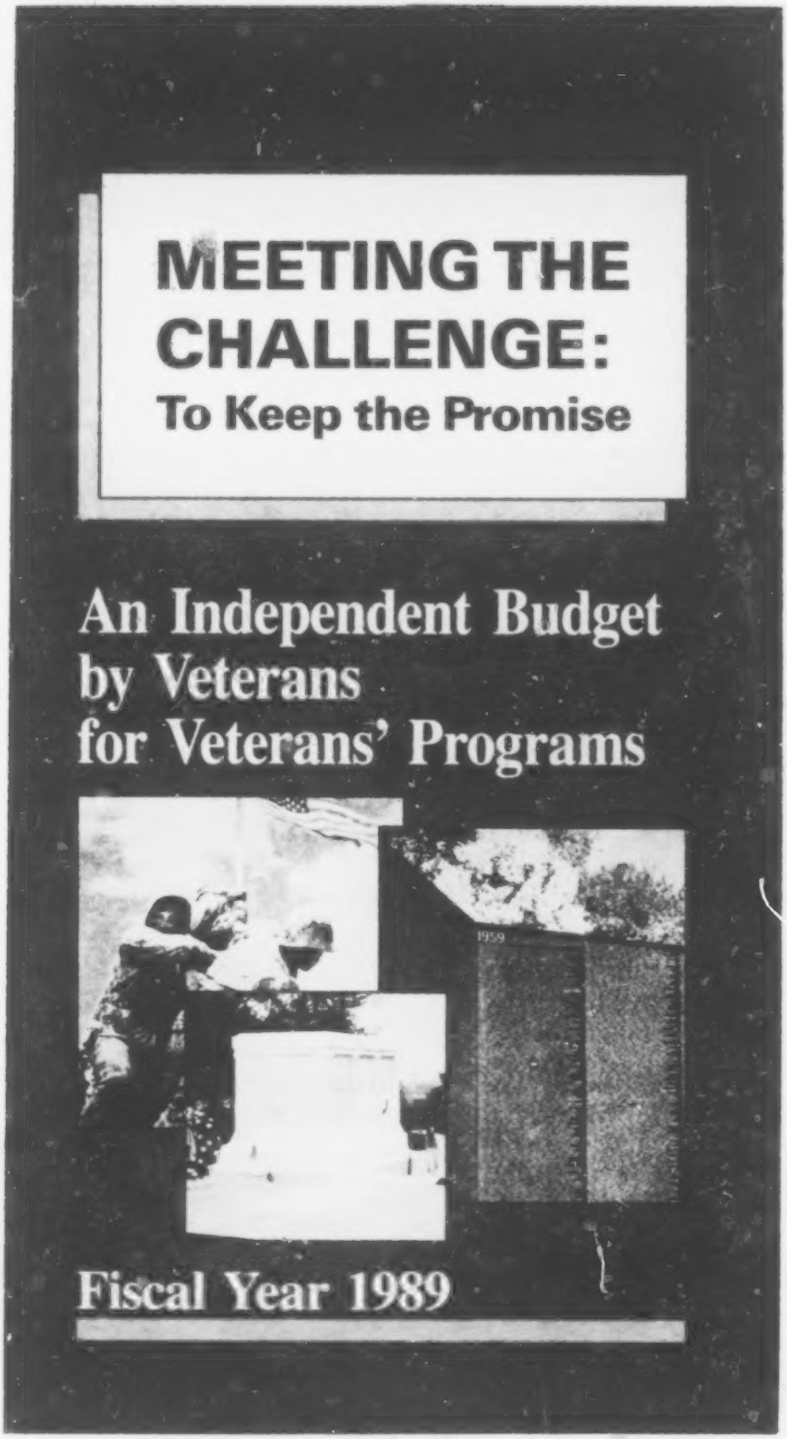
WITH RESPECT TO CURRENT SERVICES, WE NEED TO CAREFULLY EXAMINE THE 1989 BUDGET RECENTLY SUBMITTED TO THE CONGRESS. CLEARLY, THIS BUDGET NEEDS ENHANCEMENTS TO THE SUGGESTED MEDICAL CARE APPROPRIATIONS.

WE LIVE IN A TIME OF VITALLY NECESSARY FISCAL RESTRAINT -- AND I STRONGLY SUPPORT DEFICIT REDUCTION. HOWEVER, I DO NOT BELIEVE IT SHOULD START BY REDUCING THE NUMBER OF VA MEDICAL EMPLOYEES BY ALMOST 1,800.

AND IT SHOULD NOT START BY REDUCING THE NUMBER OF PLANNED NURSING CARE BEDS FOR VETERANS IN THE FACE OF AN EVER-INCREASING POPULATION OF OLDER VETERANS.

I CAN ASSURE THOSE OF YOU HERE TODAY THAT THESE CUTBACKS WILL NOT BE ACCEPTABLE AS LONG AS I AM THE RANKING MEMBER OF THE HOSPITALS AHD HEALTH CARE SUBCOMMITTEE.

I AM ALSO CONFIDENT THEY WILL NOT BE ACCEPTABLE AS LONG AS JERRY SOLOMON IS THE RANKING MEMBER OF THIS COMMITTEE, NOR WILL THEY BE ACCEPTABLE AS LONG AS G.V. SONNY MONTGOMERY IS OUR CHAIRMAN!



MEETING THE CHALLENGE:
To Keep the Promise

An Independent Budget
by Veterans
for Veterans' Programs

Fiscal Year 1989

Prologue

This budget proposal is respectfully submitted to the Congress, which, over past years, has labored hard and long to provide an adequate budget for veterans' programs. This document, covering the main issues in the Veterans Administration's Annual Budget, is the product of a combined effort of four major Congressionally chartered veterans' service organizations. This unprecedented collaborative effort connotes a final loss of confidence in OMB's intention or ability to address veterans' issues objectively or to support the moral and legal obligations that this nation has accorded the men and women who have served our country.

James B King

James B. King
National Commander
American Veterans of World
War II, Korea and Vietnam

Gene Murphy

Gene A. Murphy
National Commander
Disabled American Veterans

John H. Michaels

John H. Michaels
National President
Paralyzed Veterans of America

Earl Stock Jr

Earl L. Stock, Jr.
Commander-in-Chief
Veterans of Foreign Wars
of the United States

SPONSORS

Blinded Veterans Association
Military Order of the Purple Heart

PATRONS

American Association of Spinal Cord Injury Psychologists and Social Workers
American Association of Spinal Cord Injury Workers
American Nurses Association
American Paraplegia Association
Association of American Medical Colleges
National Association of VA Physicians

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THE BUDGET IN BRIEF

This is a veterans' budget for veterans developed by four major Congressionally chartered veterans' service organizations (VSOs): AMVETS, the Disabled American Veterans (DAV), the Paralyzed Veterans of America (PVA), and the Veterans of Foreign Wars (VFW). In this budget, we have been both fiscally prudent in our recommendations and responsive to veterans' real needs in our proposals.

THE CHALLENGE

Three principal challenges shape our budget this year. One is the increasing demand on VA programs that stems from the aging of the veteran population. The largest group of veterans, the World War II and Korean War generations, is now rapidly reaching age 65 and over—ages at which health care needs and death rates increase dramatically. This aging process, the first challenge, results in a need for more services from the VA's health care system and from its cemetery and memorial affairs programs.

The second challenge facing the Independent Budget this year is the climate of extreme austerity that currently characterizes the entire federal budget.

The third challenge is that of veterans' unmet need for VA services. Unmet need appears in the veterans' benefit area, where severe deficiencies are found in services provided to veterans; these result primarily from understaffing of the Department of Veterans Benefits (DVB), the VA unit that administers benefits programs. We have also found evidence of serious unmet need of multiple types in the VA health care system.

OUR STRATEGY

The basic strategy of the veterans service organizations that have authored this Independent Budget is:

- To assure that all veterans receive the benefits and services to which they are entitled;

- To assure that the VA provides these benefits and services in a fashion that is cost-efficient but also timely; and

- To assure the integrity, quality, and coherence of the benefits and services the VA provides.

In light of the need for austerity, an important component of our strategy consists of confining our initiatives to actions dealing with veterans' most urgent needs, and proposing to meet these needs in the most economical fashion possible.

Our overall strategy recognizes that total veteran benefit program costs increase less rapidly than does inflation because of the declining number of program beneficiaries in the largest benefits programs (compensation and pensions). All such savings should be regarded as available to meet the growing need for health care services that arises as the veteran population continues to age.

In the benefits administration area, our strategy is directed primarily at improving the service the VA is providing. We seek service in the adjudication of claims that measures up to standards of timeliness and quality of the late 1970s, as well as comparable improvements in other important service areas. This will require (1) an increase in staff, (2) the installation of appropriate computer systems in the VA and their integration across departments of the VA, and (3) the establishment of needs-directed training programs that will develop, maintain, and upgrade the skills of the benefits program staff.

Veterans are willing to shoulder their share of the burden of deficit reduction. We will thus accept a curtailed cost-of-living adjustment (COLA) in 1989 in veterans' benefit programs if all other federal program beneficiaries—including Social Security recipients—do likewise and if there is a similar curtailment of federal contract cost increases due to COLAs in contractor employees' wages. Otherwise, we call for a full and equitable COLA increase in veterans' benefit programs. Our strategy for benefits also calls for putting the loan guaranty program on a sound financial footing as a VA-operated program.

In the medical programs area, our strategy is to attack current problems of unmet need and to meet growing need in the future by increasing our emphasis on less expensive care modalities. In particular, our recommendation is for more reliance on non-institutional forms of care, which are generally far more economical than are institutional modalities of care. The VA has recently achieved impressive shifts toward non-institutional care in the mix of care it delivers, and our strategy calls for still further shifts in this direction.

Our strategy in VA construction starts with the necessity of maintaining the system of VA health care facilities, assuring that they are in good repair and that functional space is updated to keep up with changes in health care delivery technology and needs. In addition, we call for the development of a system that will realistically assess the need for construction and include a sound system for setting construction priorities. Our strategy also calls for an expansion of the National Cemetery System to make burial plots available in reasonable proximity to veterans' families.

Recent DOD action entitles World War II merchant seamen to veteran's status. Needs for VA benefits and services created by this action are not reflected in this budget.

SPECIFIC RECOMMENDATIONS

Tables I and II show the funding we recommend in the appropriation accounts into which the VA budget is divided. These tables show that most of the increase we recommend is required merely to keep even with rising costs.

Total appropriations for the VA in FY 1987 were $26.6 billion. Just to maintain the same level of program activity in FY 1988 would require $27.1 billion. This concept of maintaining the same level of program activity as in FY 1987 is what we mean by "current services." The dollar increase from FY 1987 to FY 1988 needed to maintain current services (i.e., to maintain the FY 1987 level of services provided) is small—only about two percent, which is far less than general inflation. It is this small because the number of pension and compensation beneficiaries is declining and because federal salaries (the main cost in medical programs) increased by only some two percent. However, providing this small increase is obligatory if the VA is to continue to function in FY 1988 as it did in FY 1987.

Unfortunately, as the tables show, the FY 1988 enacted appropriations total about $55 million dollars less than the FY 1988 current services level (i.e., less than the amount necessary to continue to provide the FY 1987 level of services). We call for appropriation of the additional amount needed to reach the current services level in FY 1988 so that the VA can continue to provide the services it has offered in the past. If these additional funds are not appropriated, a considerable cutback in medical research and in grants to states for extended care facilities will be required.

In turn, the FY 1989 current services level is $28.1 billion, about $1.0 billion above the FY 1988 current services level. The $1 billion increase must be funded just to allow the VA to continue to operate in FY 1989

TABLE I
VA APPROPRIATIONS SUMMARY
(dollars in thousands)

Appropriation Account	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
General Operating Expenses and Misc.	770,500	774,800	778,200	807,700	824,200
Benefits Programs	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820
Medical Programs**	9,990,300	10,400,800	10,452,000	10,842,040	11,119,940
Construction Programs	488,700	522,900	523,800	489,500	541,000
TOTAL VA APPROPRIATION	26,570,100	27,062,800	27,118,300	28,139,060	28,484,960

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

TABLE II
VA APPROPRIATIONS BY ACCOUNT
(dollars in thousands)

Appropriation Account	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
GENERAL OPERATING EXPENSES AND MISCELLANEOUS					
General operating expenses	770,500	774,800	778,200	804,700	821,200
Grants for the construction of state veterans cemeteries	0	0	0	3,000	3,000
TOTAL GOE AND MISCELLANEOUS	770,500	774,800	778,200	807,700	824,200
BENEFITS PROGRAMS					
Compensation, pension, and burial benefits	14,422,500	14,334,300	14,334,300	14,793,000	14,793,000
Readjustment benefits	763,300	625,700	625,700	597,600	597,600
Veterans insurance and indemnities	4,800	14,300	14,300	9,220	9,220
Veterans' job training	30,000	0	0	0	0
Loan guaranty revolving fund	100,000	390,000	390,000	600,000	600,000
TOTAL BENEFITS PROGRAMS	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820
MEDICAL PROGRAMS**					
Medical Care	9,712,800	10,120,000	10,158,000	10,540,900	10,818,800
Medical and prosthetic research	192,800	193,000	203,600	209,300	209,300
Medical administration and miscellaneous operating expenses	41,800	47,000	47,500	48,940	48,940
Grants for construction of state extended care facilities	42,400	40,300	42,400	42,400	42,400
Grants to the Republic of the Philippines	500	500	500	500	500
TOTAL MEDICAL PROGRAMS	9,990,300	10,400,800	10,452,000	10,842,040	11,119,940
CONSTRUCTION PROGRAMS					
Construction, major projects	382,700	403,000	403,000	368,000	368,000
Construction, minor projects	80,000	116,000	116,900	117,500	169,000
Parking garage revolving funds	26,000	3,900	3,900	4,000	4,000
TOTAL CONSTRUCTION PROGRAMS	488,700	522,900	523,800	489,500	541,000
TOTAL APPROPRIATION	26,570,100	27,062,800	27,118,300	28,139,060	28,484,960

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

as it did in FY 1987 (the definition of "current services"). Supplemental funding of $390 million will be needed to accommodate the COLA increase for compensation recipients.

As part of our computation of the current services level, we include amounts necessary to cover pay raises, and we are recommending these amounts be appropriated in full, at the beginning of each fiscal year—not late and only in part, as has too often been the case in the past, resulting in staffing cuts.

Our total recommended VA appropriation level for FY 1989 is $28,485 million, only about $350 million above the FY 1989 current services level. Thus, as is fitting in an era of austerity, most of the funding increase we recommend is required merely to cover increasing costs, not for new initiatives. Our major recommendations for FY 1989—including managerial recommendations with relatively small budget impact—follow.

Recommendations for General Operating Expenses (GOE) and Miscellaneous Appropriations

- A three-part plan of action to attack the three main causes of severe deficiencies in the quality and timeliness of service provided in veterans' benefits programs. (This service activity is the largest component of GOE.) The plan includes:

    1. Addition of 543 FTEEs (full-time equivalent employees) over the FY 1988 level for administration of benefit programs. The cost of this recommended staff addition is $17 million and it would be divided up among benefit program areas as follows: Compensation, Pension, and Education, 342 FTEE; Vocational Rehabilitation & Counseling, 53 FTEE; Veterans Services, 148 FTEE. We also recommend additional staff for the Loan Guaranty program. Restoration of these positions would reverse only a small portion of the staffing cuts imposed in recent years.

    2. Increased training for benefits program staff, particularly for staff involved in adjudicating applications for benefits. This will improve the quality and increase the nation-wide uniformity of benefits determinations. We recommend 15 staff and $650,000 for a training unit, plus support for the unit from program staff who will help develop educational modules.

    3. Modernization and integration of automated data processing (ADP) systems to increase productivity and provide information flows among VA departments (and across federal agencies) that are needed to ensure timely and accurate benefits services to veterans, with full regard to due process.

- Opening a second VA regional office in Florida.

- $3 million for the state veterans cemetery grants program.

Recommendations for Benefits Programs

- A cost-of-living adjustment (COLA) effective December 1, 1988 that is equal to the COLA in other federal programs. The VSOs are prepared to support a reduced or eliminated COLA if it is applied across the board. We estimate that a full COLA would approximate a 4.5 percent increase.

- Updating the maximum grant amount for specially adapted housing for severely disabled veterans to $40,000 and updating the maximum grant amount for specially adapted automobiles to $5,530, as proposed in pending legislation.

- Legislation to extend the eligibility date for the Veterans' Job Training Program to June 30, 1989.

- A $600 million appropriation for the Loan Guaranty Revolving Fund.

- Increasing the number of direct loans the VA is authorized to make.

Recommendations for Medical Programs

- Restricting program enhancements to medical care (rather than research, administration, or other activities) in light of the need for budget austerity.

- Fully funding cost increases necessary to maintain current services. This is particularly critical in research and grants for state extended care facilities; serious cuts will result in FY 1988 and 1989 if these increases are not funded. Fully funding the current services level in VA medical programs requires approximately $50 million more than has been appropriated in FY 1988 and a further increase of approximately $390 million for FY 1989.

- Rapid expansion of non-institutional long-term care programs in recognition of the particularly rapid increase in demand for long-term care that accompanies aging. This includes increased hospital-based home care; more adult day health programs, community residential care, and geriatric evaluation units; more geriatric research, education, and clinical care centers; more respite care programs and hospices, all at a total cost of $47 million.

- Expansion of nursing home programs, recognizing the inevitability of an increased nursing home census despite rapid expansion of non-institutional long-term care. For FY 1989, we recommend an increase of approximately 3,000 in census in VA, community, and state nursing home programs at a combined total cost of approximately $43 million.

- Rapid expansion of outpatient acute care, to 21.4 million staff medical visits in FY 1989, with provision of $90 million for this purpose, while inpatient care, which is far more costly, is held constant.

- A continued prominent role in AIDS treatment (the VA is treating about 7 percent of all U.S. AIDS patients), funded with an additional $50 million, the increment expected to be required for caring for these patients.

- A survey to determine veterans' unmet need for VA medical care.

- A multi-faceted program to enhance the VA's recruitment and retention of critical health care professionals.

- Placing a floor under resources allocated to VA psychiatric hospitals and services, with the floor at the level of FY 1987 obligations (and adjusted upward annually for payroll and inflation increases).

Recommendations for Construction Programs

- A high appropriation level, $169 million, for minor construction because of the importance of updating and repairing VA facilities, most of which are quite old.

- A low appropriation, $368 million, for major construction because the VA does not have an adequate system for basing construction projects on its needs.

- Prompt development of an adequate system for basing construction projects on VA programmatic needs.

- An appropriation of $3 million to begin to buy land for cemeteries that must be added to the National Cemetery System to enable us to meet proposed new criteria for accessibility to veterans' families.

- $40 million for advanced planning and design funds to keep projects moving swiftly forward.

- $30 million for four new 120-bed VA nursing homes each year. $20 million a year earmarked for conversion of VA hospital beds to nursing home beds.

Legislation

We are submitting, separately, five legislative proposals:

- A proposal to provide entitlement to VA outpatient care to all Category A veterans. These are service-disabled and low-income veterans, and most now have entitlement only to inpatient care. This proposal is estimated to involve no net costs.

- A proposal to enhance the National Cemetery System by providing a cemetery with available burial space in every state and such cemeteries within reasonable distance of major veteran population centers.

- A proposal to provide entitlement to beneficiary travel reimbursement (with a per-trip deductible) to Category A veterans, veterans receiving a compensation and pension examination, and in certain other circumstances.

- A proposal to extend authorization for the state cemetery grants program.

- A proposal to extend the authorization for the Veterans' Job Training program.

Provisions in pending legislation that we endorse and recommend for enactment include:

- Updating the maximum grants for specially adapted housing and specially adapted automobiles for severely disabled veterans.

- Provision of procreative services for veterans with a service connected procreative impairment.

INTRODUCTION

Last year, four major Congressionally chartered veterans' service organizations (VSOs) joined in an unprecedented cooperative effort to develop and present to the Congress a fiscal year 1988 budget proposal addressing the program requirements of the Veterans Administration (VA) Department of Medicine and Surgery (DM&S). It was a "veterans' budget for veterans' health care," independent of the process that builds the President's budget. It was a proactive approach to place on the record the perspective of the Congressionally chartered consumer representatives of our nation's veterans.

That first Independent Budget was well received in Congress, where encouragement was given to make the Independent Budget an annual event. A budget in which VSOs expressed the concerns and needs of our constituents and presented options not contained in the OMB-dominated Presidential budget was welcomed as a source of valuable information. Satisfaction was also expressed with the framework in which realistic and responsible proposals were presented in accordance with the legislative budget process.

Many of the same concerns that motivated the initiation of the Independent Budget project remain with us today. They are detailed in appropriate sections of this publication, and are among the reasons the VSOs are presenting an Independent Budget again this year.

Whereas last year's FY 1988 VSO Independent Budget was limited to the health care aspects of the VA, this year's FY 1989 Independent Budget covers all VA programs. The inclusion of all VA programs this year should increase the Independent Budget's value because there are important interrelationships among the VA's departments and program areas.

The FY 1989 Independent Budget has been developed with an acute awareness of today's fiscal constraints on the federal budget. Congress has always given every consideration to the needs of veterans and provided for those needs in accordance with a fair allocation of available federal resources. The primary purpose of the Congressionally chartered veterans service organizations in presenting this Independent Budget is to provide as objectively as possible a description of veterans' current needs, deferring to the good judgment of Congress to what extent these needs should be met. Resources were sought in last year's Independent Budget for certain program initiatives that were not funded; some of these are included this year with appropriate modifications.

All recommendations of initiatives in the Independent Budget are made in response to very real needs. However, in light of the extremely constrained federal budget situation this year, we have passed over some important initiatives that we feel can be deferred in this era of maximum austerity. The text generally mentions these initiatives, but they are not included in our recommendations for appropriations.

For ease of comparison, the format of this Independent Budget generally follows that of the official federal budget for the Veterans Administration. However, we deal only with accounts for which VA appropriations are required, not with those that are self-financed or financed by other agencies. The text in each broad budget component contains a list of principles and guidelines, statements of the challenges facing the VA, our strategy to address those challenges, and our specific recommendations. Insofar as possible, we have eliminated "boilerplate" verbiage, but we make use of narrative material to explain programs and policies. All policies and recommendations in the Independent Budget have the unanimous concurrence of all participating veterans service organizations.

Legislative proposals described in the Independent Budget are being separately submitted.

We are appreciative of the VA's helpful response to our Freedom of Information request for management data in the public domain. It has enabled us to conduct independent analyses of VA programs and trends, better identify veterans' needs, and make informed judgments regarding the administration of medical and benefits programs, and VA construction. Information on which the views and recommendations contained in the FY 1989 Independent Budget is based was not, however, limited to VA reports. Information from other federal and private sources and studies was also used. In addition, we undertook systematic, in-depth discussions with top management of VA medical centers, and made use of feedback from veteran constituents.

The Congressionally chartered veterans' service organizations thus respectfully submit this fiscal year 1989 Independent Budget proposal for Congressional consideration and look forward to providing further testimony on its behalf.

PRINCIPLES AND GUIDELINES FOR BUDGET FORMULATION

The Congressionally chartered veterans service organizations that developed this Independent Budget are committed to an objective and responsible approach to this, our "veterans' budget for veterans." We have therefore compiled a set of principles for guidance in budget formulation. These include both general principles that apply to the whole Veterans Administration budget and other principles that are identified with specific budget components. All are a reflection of our shared underlying philosophy regarding veterans' programs. The general principles for the entire budget are presented here; those specific to major budget components are presented in the appropriate sections of this Independent Budget.

1. Productivity improvements should not be arbitrarily anticipated in the budget process. Rather, they should only be budgeted based on specifically demonstrated and identified management initiatives that result in actual productivity increases.

2. Payroll cost increases necessary to maintain the FTEE ceiling established in appropriation language should be allowed as a prospective estimate in the budget for the fiscal year in which these payroll cost increases are anticipated. This would permit the complete and most effective utilization of the personnel made available to the VA.

3. There should be no discriminatory denial of Cost of Living Allowances (COLA's). The VSO authors of the Independent Budget have assured Congress of our support in any reduction or elimination of a COLA increase, providing it is applied across the board, involving all federal agencies, accounts, and contracts.

4. VA staff must have the training and continuing education needed to do their job well. Education and training programs also help recruit and retain top-quality professionals. For medical staff, staying up-to-date in the rapidly changing field of health care is vital. The budget should fully support medical education and include the continuation of professional scholarships to improve recruitment and retention of health care professionals in the VA system.

Similarly, adequate funding should be provided for the training necessary to assure adequate numbers of competent adjudication officers, counselors, claim processors, and other administrative personnel to effectively manage veterans' benefits programs and to apply appropriate, nationally uniform standards in benefits determinations.

5. VA facilities should be situated and staffed to serve veterans in the areas of the country where veterans live. For both health care facilities and regional offices, this means a geographic realignment paralleling the major population shift of veterans to the Sun Belt. This shift requires a reallocation of staffing and may necessitate new facilities as well as expansion of existing ones.

6. Programs that serve veterans should be operated by the Veterans Administration, which is the agency charged with providing benefits and services to veterans.

7. The VA must develop and maintain integrated electronic data processing (EDP) systems to accomplish the data flows among its component departments and with other federal agencies needed to provide timely service in meeting veterans' needs. The lack of integration of EDP systems among VA departments is notable and an underlying cause of deficient service currently being experienced in the agency.

GENERAL OPERATING EXPENSES AND MISCELLANEOUS

GENERAL OPERATING EXPENSES AND MISCELLANEOUS SUMMARY

The General Operating Expenses (GOE) appropriation provides the funds for administration of all VA programs and activities except for medical and construction programs. Because of the importance of remedying current deficiencies in this area, we have placed the discussion of GOE and miscellaneous appropriations first in our budget, rather than last, as is conventional.

Table III, "General Operating Expenses and Miscellaneous Appropriations" summarizes our recommendations for appropriations in this group.

We recommend a three-part plan of action to attack the three main causes of severe deficiencies in the quality and timeliness of service provided in veterans' benefits programs. (This service activity is the largest component of GOE.) The plan includes:

1. Addition of 543 FTEEs over the FY 1988 level for administration of benefit programs. The cost of this recommended staff addition is $17 million and it would be divided up among benefit program areas as follows: Compensation, Pension, and Education, 342 FTEE; Vocational Rehabilitation & Counseling, 53 FTEE; Veterans Services, 148 FTEE. We also recommend additional staff for the Loan Guaranty program. Restoration of these positions would reverse only a small portion of the staffing cuts imposed in recent years.

2. Increased training for benefits program staff, particularly for staff involved in adjudicating applications for benefits. This will improve the quality and increase the nation-wide uniformity of benefits determinations.

3. Modernization and integration of electronic data processing (EDP) systems to increase productivity and provide the information flows among VA departments (and across federal agencies) needed to provide timely and accurate benefits services to veterans with full regard to due process. In particular, EDP modernization and integration should:

- Link VA medical centers & regional offices

- Improve quality review and quality control

- Assure due process

- Include common workload and quality measurement systems for veterans benefits (which are administered by the Department of Veterans Benefits, DVB) and the Board of Veterans Appeals (BVA), which hears appeals in this area.

We also recommend opening a second VA Regional Office in Florida.

The principle that guides these recommendations is

TABLE III
GENERAL OPERATING EXPENSES AND MISCELLANEOUS APPROPRIATIONS
(dollars in thousands)

ACCOUNTS	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
General operating expenses (GOE)	770,500	774,800	778,200	804,700	821,200
Grants for the construction of state veterans cemeteries	0	0	0	3,000	3,000
TOTAL GOE AND MISCELLANEOUS	770,500	774,800	778,200	807,700	824,200

*Funds necessary to maintain services at the FY 1987 level simple: Veterans should have timely, effective, and convenient access to the benefits to which they are entitled. In particular, veterans seeking information should be able to obtain it easily, receiving swift, helpful, and accurate responses; veterans applying for benefits should receive needed assistance in doing so and obtain speedy and correct adjudication of their claims; and veterans appealing initial benefit determinations should have their appeals quickly resolved.

The other account in the GOE and miscellaneous group is a small one—the appropriation for grants for state veterans cemeteries. We recommend a FY 1989 appropriation of $3 million and reauthorization of the program for five years (1990 through 1994).

GENERAL OPERATING EXPENSES

The General Operating Expenses (GOE) appropriation provides funding for the administration of all Veterans Administration non-medical benefits and for support functions for the entire agency (except for construction). It includes three activities: (1) the Department of Veterans Benefits, (2) the Department of Memorial Affairs, and (3) General Administration. The Department of Veterans Benefits (DVB) operates a network of 58 regional offices through which all non-medical veteran claims are initiated. The Department of Memorial Affairs (DMA) operates and maintains 111 national cemeteries and 32 other miscellaneous sites. General Administration includes the Administrator's office and all VA-level staff offices which provide management assistance and support to all VA programs (except for construction and procurement-related staff offices).

THE CHALLENGE

Adequate funding for the GOE appropriation is vital to veterans. More than any other single factor, GOE determines the level of service veterans will receive in the delivery of the benefit programs authorized by the Congress. Yet this account, more than any other, has been subjected to budget cuts over the past decade. Proposed cuts in entitlements or in medical care meet with instant and forceful opposition. In contrast, cuts in GOE, the account that provides the funds to *administer* entitlement programs and deliver their benefits, are not as visible to the public nor as likely to arouse impassioned protests. In fact, such cuts have surface appeal because they are packaged as attacks on the "bloated bureaucracy."

Thus, with regularity, the number of employees in the Department of Veterans Benefits (GOE's largest component) has been reduced. Standing at approximately 20,000 just over a decade ago, it is some 13,000 now, and will fall below 10,000 in a few years if current trends continue, as Chart I shows. As described below, these staff cuts have had an obvious result: Claims take much too long to process, and the quality of claims adjudication has deteriorated.

It is also clear that the budget process that has produced these cuts with regularity has had a more subtle and demoralizing effect on VA managers and employees, as described here: An important role of management is to provide effective service with the least possible resources. Effective service, however, is the premise of this principle, a fact that appears to have been ignored by OMB budget cutters in their zeal to use the least possible resources. Repeated staff cuts in DVB have been appropriate, given the introduction and gradual modernization of electronic data processing (EDP) systems, but adequate staff to provide timely and accurate service must be maintained; however, it has not been. The cumulative effect of the excessive cuts that have occurred year after year has been a demoralization of managers. Agency managers gradually give up hope of being able to deliver service consistent with the VA's mission—"to ensure benefits and services are provided to eligible veterans and their families in an efficient, timely and compassionate manner." Diminished expectations become the rule; with inadequate resources, only inadequate services can be expected.

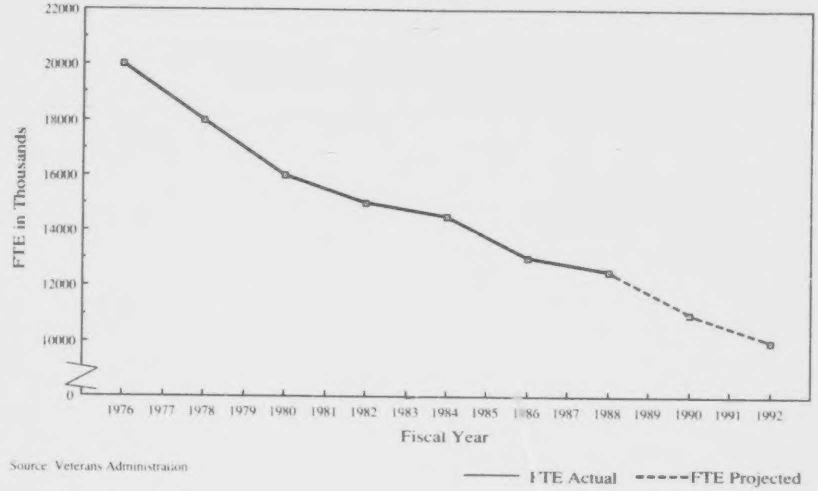
Moreover, critical initiatives die because obtaining the resources initially needed to implement them—no matter how cost-effective they may be—is considered hopeless. Short-term and/or one-time funding for administrative initiatives that will improve cost-effectiveness in succeeding years is not provided.

For example, although training is urgently needed in DVB, there is no money to do it. In the current environment, it is considered a luxury that is not affordable. Managers are told to do what they can with what they have. Training that does occur is *ad hoc* and without any centralized or consistent direction. And this is true despite the fact that training would be cost effective.

Similarly, DVB urgently needs modernization of its automated systems to attain increased productivity, but systems modernization proceeds at a snail's pace and with outmoded equipment because of lack of budgetary support. Quality control is also left to take care of itself because, at least initially, doing more would mean diverting already scarce resources. Training, modern automated systems, and quality control are all cornerstones of sound management, and are designed to provide effective service at the least possible cost, yet VA managers have been deprived of these essential tools by the mechanics of the current budget process.

The challenge, then, is to assure that benefits to veterans are made available to them in a timely, effective and cost-efficient manner. This implies that needed additional resources must be provided in GOE, and this must be done within the overall budget climate of fiscal austerity.

Chart I
DVB EMPLOYMENT
FY 1976 to 1992



Source: Veterans Administration

OUR STRATEGY

In light of this challenge, the primary emphasis of our strategy is to offer credible and economical, yet effective, solutions to problems in GOE. Therefore, each Independent Budget proposal attempts to identify the major problems of needs relating to specific program areas, to analyze the causes of the problems, to assess the current situation, and to propose a budgetary solution that, in our view, represents the minimum additional expenditure needed to provide adequate service. Our analysis leads us to a strategy that meets the challenge in four ways: (1) improved staffing in various programs; (2) improved integrated EDP systems to support the VA's mission; (3) a training program designed to upgrade and maintain the skills of the DVB staff; and (4) the installation of quality control systems to assure adequate and timely claims processing.

DEPARTMENT OF VETERANS BENEFITS (DVB)

The Department of Veterans Benefits (DVB) administers most of the VA's non-medical benefits and services to veterans and their dependents. It does so through a chain of 58 regional offices (some of these are medical/regional office centers) as well as nationwide toll-free telephone lines. The benefits it administers include compensation for service connected disabilities; pensions for low income, aged or disabled veterans; vocational rehabilitation; education and training support; home loan guaranties; and life insurance. Appropriations for these benefits exceed $15 billion while the cost of operating DVB in FY 1989 will be well under $600 million dollars, less than four percent of the cost of the benefits. Our budget and staffing recommendations for DVB are summarized in Tables IV and V.

DVB Overview

The most serious problem in the GOE appropriation is the severe deficiency in timeliness and quality of service in many benefit programs. This problem is due primarily to the gross understaffing of the Department of Veterans Benefits (DVB) cited above. DVB staff

TABLE IV
GENERAL OPERATING EXPENSES APPROPRIATION
(dollars in thousands)

GOE ACCOUNTS	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
Veterans Benefits	516,100	520,500	518,800	526,300	542,800
Memorial Affairs	48,000	47,300	48,400	49,900	49,900
General Administration	206,500	207,000	211,000	228,500	228,500
TOTAL APPROPRIATION	770,600	774,800	778,200	804,700	821,200

*Funds necessary to maintain services at the FY 1987 level

TABLE V
EMPLOYMENT -
GENERAL OPERATING EXPENSES

GOE ACCOUNTS	1987 Appropriation	1988 Appropriation	1989 IB Recommended
Veterans Benefits			
Executive Direction	465	484	484
Veterans Services	2,200	2,129	2,276
Compensation, Pension and Ed	3,684	3,810	3,868
Loan Guaranty	2,125	2,100	2,100
Insurance	455	444	444
Voc Rehab & Counseling	639	681	714
ADP Systems Manage	397	419	419
Support Services	3,163	3,064	3,084
TOTAL DVB	13,128	12,800	13,343
Memorial Affairs	1,197	1,203	1,203
General Administration	4,059	4,063	4,063
TOTAL EMPLOYMENT	18,382	18,066	18,609

have worked valiantly, but are being overwhelmed.

In addition, the current state of EDP in DVB is deficient and the lack of needed integration with VA health care EDP systems is particularly troublesome. The EDP deficiencies are another important cause of service problems, and they are linked to the staffing shortages: Often the promise that productivity increases will result from new EDP systems has been used by OMB as a rationale for imposing staff cuts on DVB. The EDP systems have often failed to deliver what was promised, while the staff cuts were already made, and the results have been increasingly substandard service. We therefore emphasize again our principle that productivity increases should not be assumed in advance, but only counted when actually accomplished.

Another contributing factor to the poor state of DVB service is the lack of training of DVB employees. With funding tight, training has been severely restricted. This restriction of training, however, has been a false economy with serious detrimental effects on services (particularly on the processing of benefit claims).

Our plans for dealing with this challenge are:

1. Staffing increases in areas of DVB where shortages are most critical;

2. Modernization of DVB's automated systems and, in particular, their integration with DM&S systems and systems elsewhere in the government that contain information DVB needs; and

3. Enhanced training for DVB employees, again concentrating on DVB functional areas in which training limitations have led to the most severe problems.

Our proposals incorporate explicit goals for timeliness and accuracy in benefit program services. For the short term, these goals are generally to achieve the timeliness called for in the late 1970s by the VA's own standards and to achieve the quality in service that was being achieved at that time. For the longer term, our goals are higher. These higher goals are realistic ones, and are based on previous VA achievements or on achievements in similar federal programs. Illustrative goals are detailed in the section on specific recommendations.

Evidence from the VA makes it clear not only that current DVB deficiencies result primarily from staff cuts, but also that such deficiencies can be remedied by an increase in staff. The clearest evidence that judicious staff increases can cure service problems comes from data on the operations of the Board of Veterans Appeals (BVA), which hears appeals from benefit determinations made by DVB. Table VI shows these data. Average BVA appeal processing time skyrocketed from 156 days to 301 days as the number of appeals increased from 30,000 in FY 1980 to 41,000 in FY 1983, and it was only a large increase in BVA staff—an increase of 25 percent and more—that brought processing time back down—to between 106 and 134 days in FY 1984 through FY 1987.

In some DVB functional areas—those in which deficiencies are less severe—we are not requesting staff increases. We follow this policy only because of the large federal budget deficit and the consequent need for austerity. Because of the need for austerity, we have taken an optimistic view in these DVB functional areas, and hope that proposed modernization of DVB computerized systems can do much to cure current problems.

Throughout DVB, including the areas in which we do recommend staff increases, we recommend an acceleration of funding for this modernization of automated systems in order to get systems on-line as soon as possible and to gain the productivity increase they should be able to achieve. However, it must be noted that the current DVB systems modernization initiative is new, and it is too soon to know what its actual impact will be. Thus our position of not requesting personnel increases in many DVB areas must be reappraised as the new systems come on-line and their true effect is seen.

In stressing DVB systems modernization, we wish to emphasize two important characteristics improved sys-

TABLE VI
BVA STAFF AND AVERAGE APPEAL PROCESSING TIME

Fiscal Year	BVA Staff (FTEE)	Average Appeal Processing Time (Days)
1980	329	156
1981	328	227
1982	343	227
1983	359	301
1984	411	132
1985	437	129
1986	417	106
1987*	423	134

*First three quarters of year.

tems should have, while avoiding the excessive micromanagement that would be inherent in our fully specifying system characteristics. For one, updated systems should incorporate quality control checks and produce quality control data—for example, information on accuracy and timeliness. To foster quality, systems also could contain built-in checking of completeness of case processing and built-in alerts for error-prone situations. Integration with BVA quality control systems should be achieved, and we recommend to DVB the use of data—as BVA does—on average processing times, workload pending, and percent of completed cases in each disposition category.

Second, it is vital that DVB systems have automated links to systems in other components of the VA and, preferably, also to other federal government departments. It would be tragic if systems modernization in DVB and DM&S proceeded on separate tracks, resulting in disparate and incompatible systems. The VSOs cannot stress strongly enough the need for integrated EDP systems within the VA. Links between automated systems in DM&S medical centers and DVB regional offices (ROs) are particularly important, and should encompass such matters as:

- Scheduling of compensation and pension examinations and reporting their results to ROs;
- Reporting inpatient hospitalization to ROs; and
- Providing medical centers a means of querying veterans' disability status and eligibility for VA health care.

Links between VA and DOD computer systems might help in providing information quickly on veterans' dates of military service and type of discharge.

Finally, we wish to stress the importance of due process in the work of DVB. Veterans must receive full due process, including proper notices that fully inform them of:

1. The actions being proposed or taken;
2. The reasons for those actions;
3. Their right to examine and present evidence;
4. Their right to have a personal hearing; and
5. Their right to be represented.

We are concerned about the large number of appeals that BVA is remanding (sending back) to DVB on the grounds that due process has not been followed. We strongly urge that systems modernization include features that will help guarantee that no veteran is deprived of due process. These could include check lists for DVB staff of procedural steps that should be taken, and automatic generation of text in notifications to veterans that set forth the veterans' rights in connection with the actions described in the notification.

Specific Recommendations

We turn now from an overview of DVB to our specific recommendations for the individual components of DVB.

Current Services: Fully fund the current services level, with $5.8 million in additional appropriations for DVB in FY 1989. The FY 1989 appropriation for DVB must include enough funds to continue current services (i.e., continue the FY 1987 services level) plus those needed to provide for the three-part remediation program (consisting of enhanced staffing, training, and integrated EDP systems) needed in DVB. As Table IV shows, the estimated current services level in DVB is $526 million in FY 1989; we recommend this amount for the DVB appropriation plus the cost of the remediation program described in detail below.

Regional Offices: We recommend DVB open a second regional office (RO) in Florida. With an estimated 1.46 million veterans in FY 1986, Florida had the fifth-largest population of veterans among the states. Its veteran population was exceeded only by that of California, which has 3 ROs, and New York, Texas, and Pennsylvania, which have two ROs each. Moreover, Florida has shown the largest increase in veteran population of any state.

Nationwide, veteran deaths outweigh separations from the Armed Forces, and with the total veteran population shrinking, most states have a declining veteran population. Generally speaking, the veteran population is increasing only in states with substantial in-migration. Florida's increase is made up largely of an in-migration of elderly veterans who have relatively high service needs. Also, geographically, Florida has a larger area than either New York or Pennsylvania.

The planning for the new RO can be funded within the existing budget for the advanced planning fund (part of the construction appropriation). Additional costs associated with our recommendation for a second regional office in Florida will not occur in FY 1989.

Executive Direction: Effectively manage initiatives. The Executive Direction component of DVB consists of the offices and staffs of the Chief Benefits Director (CBD, the head of DVB) and three major units of DVB (field operations, program management, and EDP systems management), each under a Deputy Chief Benefits Director.

The Independent Budget proposes a number of specific recommendations that will require extensive and innovative planning and management for successful implementation. We realize that this is a difficult task, but are confident that DVB possesses the executive talent and dedication to implement these recommendations *if* a new environment—such as is described in the "Challenge" section of this chapter—is created. Obviously, adequate funding will be an important element in planning and managing these initiatives. Consistent with our view that DVB management is especially well positioned to know what is needed to restore effective service to veterans, we hope that DVB and the VA will make a persuasive case in future budget requests for resources that need to be deployed to achieve efficiency, promptness, and a high quality of service. We call on the Congress to give these requests a favorable hearing.

Veterans Services: Restore staffing to the FY 1986 level of 2,276 FTEE, at a cost increase of $4.4 million. The Veterans Services component of DVB provides information, advice, and assistance regarding veterans' benefits to veterans, their dependents, and their survivors. This information and advice is provided in person —primarily at regional offices—over nationwide toll-free telephone lines, and by correspondence. The Veterans Services program also conducts outreach activities aimed at disadvantaged, elderly, homeless, and other special groups of veterans. Veterans Services personnel also oversee payment of VA benefits to legally incompetent veterans and have program approval and compliance responsibilities for educational and training institutions in the VA's education benefit programs.

While requests for information and assistance handled by Veterans Services staff are expected to increase from 13.5 million in FY 1986 to 14.4 million in FY 1988, and 11 percent of telephone calls went unanswered because of staff overload in FY 1986, the Administration sought a reduction of approximately 150 Veterans Services employees between FY 1986 and FY 1988. Cutting staff when workload is growing and service is already unsatisfactory just does not make sense. Improved telephone equipment and extensive use of recorded messages should be some help, but the abandoned call rate needs to be cut radically. To achieve this goal, we propose adding 148 FTEE, at a cost of approximately $4.4 million, to restore staff to the FY 1986 level.

Staffing in Veterans Services—combined with the automated technology used—must be adequate to meet the demand for services, and to provide quality responses. In the short term, our goal for Veterans Services is to greatly reduce the abandoned call rate so that close to 100 percent of incoming calls are answered. After that is achieved, outreach activities by Veterans Services need to be enhanced. For example, in the post-World-War-II period, DVB maintained a regular presence at VA medical centers; now Veterans Services staffing at VA medical centers is sporadic and spotty at best. The homeless veteran in America presents another need for outreach. During the first six months of a recent pilot outreach project, over 6,000 veterans turned up among the homeless, many with heavy needs for VA services.

Compensation, Pension, and Education: Staff with 3,852 FTEE at a cost increase of $11 million; provide organized, nationally standardized training; and improve integrated EDP systems. The Compensation, Pension, and Education (CP&E) component of DVB carries out the processing of veterans' claims for compensation, pension, and education benefits, and administers payments of these benefits. Annual payments to veterans under these benefits programs total approximately $15 billion, while funds for the CP&E component of DVB total about $0.1 billion, well under one percent of the cost of these benefits. Nonetheless, the most severe problem in these benefit programs lies not in the benefits themselves, but in the poor service being received by veterans. Again, we stress this is not the fault of CP&E employees, but the fault of staffing shortages that make it impossible for CP&E staff, despite their hard work, to provide adequate service.

The situation is sufficiently grave that the evidence of substandard performance in both quality and timeliness of service in CP&E bears discussing at length.

The disposition of original claims for compensation provides one example of the problem: In 1979, the VA's own standards called for action on 50 percent of original compensation claims to be completed within two months and for 75 percent to be completed within three months. In FY 1987, however, only 16 percent were completed in two months, only 31 percent were completed in three months, and the VA had greatly diminished its standards. The 1987 standards set goals of 30 percent and 50 percent completion in two and three months[1], respectively, and "acceptable" rates of 20 percent completion in two months and 35 percent completion in three months. The "acceptable" standards in 1987 called for *less than half* as many timely results as the 1979 standards, *and even these much diluted standards were not being met.*

Similar situations characterize processing of other claims—for example, original claims for pensions. For original pension claims, the 1979 standards were 60 percent completion within two months and 80 percent completion within three months, while the actual FY 1987 results were 37 percent completion within two months and 53 percent completion in three months.[1]

The unacceptable character of current performance becomes even clearer when some other facts are considered. First and foremost among these is the grave financial situation of many of the veterans filing initial claims for compensation or pension benefits. For example, to receive any pension benefits, a veteran's income has to be very low—below about $6,000 a year. Such veterans are hardly able to wait the months it is now taking for initial action on their claims to be completed.

The second noteworthy fact is that the Social Security Administration typically completes action on Disability Insurance (DI) claims in 45-60 days. Veterans ought to be able to receive the same timeliness of service on compensation and pension claims. Indeed, more rapid service should be available to veterans because all Social Security DI claims require a determination of disability (a particularly difficult part of the adjudication process), while some veterans' pension claims do not (because low-income veterans are eligible for pensions on the basis of having reached age 65, as well as on grounds of disability).

A third factor to consider is the percentage of original compensation and pension claims still pending after six months. Given the often desperate financial status of claimants, claims should almost never be allowed to take six months or more to resolve. This fact was reflected in the 1979 standards, which called for only two percent of original pension or original compensation claims to require six months or more to complete. However, in FY 1987, 25 percent of original compensation claims were requiring six months or more—more than 12 times as many as called for by a reasonable standard—and 12 percent of original pension claims were taking this long, which was six times as many as called for by the standard.

The processing of appeals that veterans lodge against initial regional office decisions also shows problems in service. Until FY 1984, the DVB portion of the appeals process was taking, on average, about 200 days, but thereafter the time required skyrocketed to almost 300 days. Moreover, through FY 1984, about 15 percent of cases sent by DVB to the Board of Veterans Appeals (BVA) were remanded—i.e., sent back to DVB because the case record was incompletely or incorrectly assembled—but the remand rate has since increased to 21 percent. Clearly, both timeliness and quality have deteriorated.

Again, we stress that the main reason for the problems in the CP&E area is the very large staff reduction that took place. Between FY 1978 and FY 1986, DVB staff in the compensation, pension, and education area was cut from approximately 5,700 to approximately 3,600, as Chart II shows. While there was a reduction in workload (due almost entirely to a declining number of education claims), and productivity should have increased as computer systems were installed, the staff cuts have obviously been excessive—as shown by unacceptable levels of performance, even by the VA's reduced standards.

Clearly, what has been ignored in the current budget process is the inescapable interrelationship among timeliness, the volume of work, and the number of employees available to accomplish the work. If the volume of work decreases, staff cuts are appropriate, but only to the extent that timeliness of service is maintained. The constant in the three-part equation of timeliness, volume, and number of employees must be timeliness, unless a conscious decision is made to allow the timeliness of work to deteriorate. Such a decision potentially affects millions of people, and should not be made for arbitrary budgetary reasons. Rather, because it has major public policy implications, it should be made only after careful Congressional consideration. Moreover, there must be recognizable accountability for any such decision. Obviously, this has not been the process that has been operative over the past decade, although the OMB-driven process has led to unacceptable timeliness performance.

As the foregoing information demonstrates, addi-

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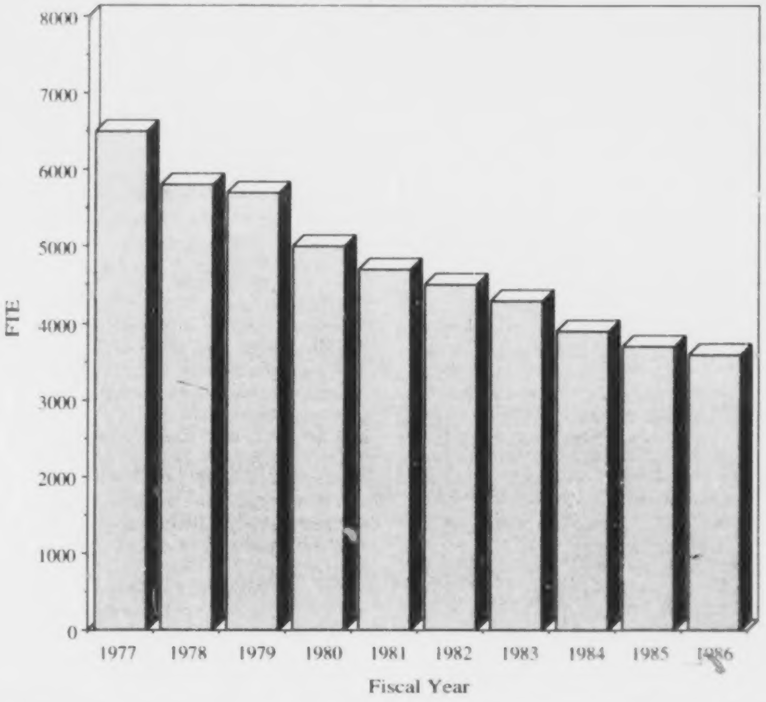
[1] Based on the first nine months of the fiscal year.

Chart II
COMPENSATION, PENSION AND EDUCATION STAFFING

Number of Full-Time Employees
FY 1977 - 1986



tional staff is necessary to achieve timely service; the question is how much more staff is needed. The VSOs recommended an increase in CP&E staff to 3,852 in FY 1989, an increase of 342 staff over the FY 1988 level at a cost of $11 million. The full rationale for this recommendation is contained in Appendix A, "Measuring the Need for Compensation, Pension and Education Staff in the Department of Veterans Benefits." The analysis in that appendix incorporates a methodology that:

- Examines historical CP&E workload data using the VA's own work measurement system;

- Analyzes historical staffing levels using the work measurement system as a tool to determine the adequacy of the staff to process the volume of work;

- Applies a factor that accounts for the essential ingredient of timely disposition of claims.

Reversing some of the excessive staff reductions of recent years is not the only action necessary to improve timeliness and accuracy of service in the compensation, pension, and education area. We also recommend a program of training new employees and of improving automated systems.

Currently, there is no budget in CP&E earmarked for training, and training of new employees is usually provided on the job by experienced claims processing personnel. This approach to training is expensive; DVB estimates that up to one-third of the time of a senior adjudicator is consumed over a six-month period in one-on-one training of each new professional employee. Training in this mode also generates major quality problems. There is no uniform set of training experiences provided to trainees throughout the network of 58 regional offices, and the absence of a standardized instructional experience probably is a major factor in quality deficiencies in CP&E work.

We therefore recommend the institution of organized training in CP&E that will deliver nationally standardized training. Training could be provided by a centralized instructional staff at a national training academy; in a partly decentralized fashion by videocassette instruction supplemented by computerized practice and testing modules; or through use of other techniques or combinations of techniques. The choice of techniques should be based on cost-effectiveness, and DVB will probably have to experiment initially to identify the costs and effectiveness of various training modalities. Training should encompass not only instruction of new employees, but also continuous retraining, particularly retraining of experienced employees in areas that BVA and DVB quality control systems have shown to be problematic.

The Independent Budget recommends an initial training budget of $650,000 for CP&E, with 15 FTEE added for the training activity. Also, assistance from current CP&E staff will need to be supplied for the development, dissemination, and use of training programs. Initial experience in training will provide information on resources (both personnel and dollars) needed for training in future years and on the gains resulting from training.

We expect that in the long run training will more than pay for itself in increased productivity, reduced error rates and appeals, and reduced use of experienced personnel in the costly one-on-one training mode that now prevails.

Improvement of computerized systems is the third necessary component of the solution to the problem of substandard quality and timeliness in CP&E service. Modern automation is a basic necessity for handling large claims workloads with reasonable productivity. As described above, the updated systems used in CP&E should integrate with those in other components of the VA (and perhaps outside the VA) and be designed to enhance quality.

In summary, a combination of (1) increased staff; (2) organized, centrally directed training; and (3) improved and integrated computer systems is needed to produce satisfactory service in CP&E.

For the short term, the objective should be to meet the timeliness standards of the late 1970s and to restore quality to the levels achieved then. Some of the specific standards and achievements of this period have been cited above, but it is important to emphasize the need for timeliness in completing action on appeals. In the late 1970s, average total time from initial claim to completed action on an appeal was about 300 days, and we recommend this is as the short-term goal for appeal timeliness. In contrast, an average of over 400 days now prevails.

After short-term goals are achieved, consideration should be given to further improvements in timeliness for those types of claims that often involve veterans with a grave short-term need for benefits (for example, original pension or compensation claims). What should be achieved in the long term is illustrated by the 45-60 day average processing time for Social Security Disability Insurance claims or by the fact that in the mid-1970s the VA's total elapsed time for an appeal averaged 235-260 days.

Loan Guaranty: Implement remedial measures. The Loan Guaranty program provides housing credit assistance to eligible veterans and military personnel through guarantees of loans made by private lenders and through direct loans to certain severely disabled veterans.

The administration of this program is beset by a number of problems. These problems are caused, in part, by economic and market conditions over which the VA has no control. Thus, efficient administration of this program is extremely difficult. For example, in 1986 a total of 314,000 loans were guaranteed, a 75 percent increase over the previous year. This level of activity was a direct result of the sharp decline in mortgage interest rates throughout the nation. At the same time, depressed economic conditions in the Southwest led to a significant increase in defaults on guaranteed loans and in the number of acquired properties.

These developments caused large backlogs and DVB management did a commendable job by using many means to deal with them. For example, employees were detailed from other programs, additional funds were made available for overtime, and contracts were made with private individuals (usually retired employees) to perform work on a fee basis. These management initiatives met with considerable success. For example, in May 1986 only 27 percent of VA appraisals were processed within VA's basic 15-day time standard, but by November 1986, 57 percent of the appraisals were meeting the timeliness standard.

These measures were, however, insufficient to adequately address the backlog problem, as the timeliness data indicate. We note with approval that the estimate of FY 1988 average employment to administer this program is 2,100—131 over the FY 1986 level of 1,969. This increase in the number of employees is, we think, desirable for several reasons. For one, the stop-gap measures taken in response to the upsurge in workload are disruptive to other programs and expensive (additional travel, contracting costs, and overtime). Second, they are "band-aid" approaches to a major problem that gives no indication of being quickly resolved—interest rates remain relatively low and economic conditions in the Southwest have not improved significantly.

Congress is also addressing problems in the loan guaranty program, most recently in P.L. 100-198. For example, that legislation includes, among others, a provision that would require the VA, to the extent appropriations are available, to provide personnel to implement improved service to veterans. It also makes a number of changes directed at problems of defaults, foreclosures, acquired properties, and loan management.

We are encouraged by these developments; they demonstrate that attention is being given to this program, both legislatively and administratively. However, we believe that additional resources must be provided to restore adequate service to veterans, particularly those who have defaulted on VA-guaranteed loans. Therefore, we are recommending that Congress authorize additional staff and funding at this time, solely for the purpose of providing immediate servicing of defaulted loans in an attempt to avoid foreclosure and reduce the program's liability.

Vocational Rehabilitation and Counseling: Increase staff to 714 FTEE at a cost increase of 1.6 million. The Vocational Rehabilitation and Counseling (VR&C) component of DVB provides assistance to veterans with service connected disabilities to help them achieve maximum independence in daily living, to become employable, and to obtain and maintain suitable employment. It also provides counseling services to veterans and members of the Armed Forces applying for educational and job training benefits and it operates career development centers. Its three main areas of activity are to provide: (1) Rehabilitation evaluation and planning; (2) Counseling and rehabilitation services; and (3) Employment services.

These services are among the most important in the entire veterans' benefits area. VR&C carries out the nation's commitment to help veterans disabled in military service—those to whom we owe most—to function independently and to obtain suitable employment. These services, moreover, are beneficial to the nation because they help restore disabled veterans to the status of economically productive, taxpaying workers.

Unfortunately, there are backlogs in the VR&C workload, due to inadequate staffing, which seriously undermine the effectiveness of the service VR&C provides. For example, a veteran must now wait 84 days, on average, from the time his application is received until he has an initial interview with a vocational rehabilitation specialist (VRS). This is an intolerable wait, especially as studies of successful vocational rehabilitation programs repeatedly show the critical importance of starting rehabilitation quickly—before negative attitudes about employability become established. In the short term, our goal is to reduce the wait to 30 days; for the longer term, even better performance is necessary and DVB should re-establish a presence in VA medical centers—such as it had in the post-WWII period. Among other things, such a presence will help VR&C to start contact with veterans needing vocational rehabilitation services at the optimal time—namely, early after hospitalization begins.

Other delays in VR&C services are occurring when vocational rehabilitation staff believe psychological counseling and evaluation is necessary.

Additional evidence of staffing shortages in VR&C include:

- An average workload of 182 cases for VA vocational rehabilitation specialists compared to a workload of 60 cases for comparable staff in the state/federal rehabilitation program.

- An increase from 155 days in FY 1984 to 232 days in FY 1986 in the average time from (1) the completion of a veteran's rehabilitation program and his readiness to seek employment until (2) he has been employed for 90 days, which is the point at which rehabilitation is counted as having succeeded.

In short, service to veterans in this important area is clearly inadequate. This has also been documented by General Accounting Office (GAO) and Inspector General (IG) studies completed in recent years.

Again the problem is caused by grossly deficient resources and a lack of training. For example, until approximately seven years ago, the VA was not involved in employment services. Before that time, once a veteran's vocational rehabilitation and counseling from the VA were completed, a veteran was on his own (or referred to the Department of Labor) for employment services. The VA has since become responsible for employment services, but no additional funds were provided. Vocational rehabilitation staff thus took on the new responsibility, but they have been overloaded with cases, and cannot devote appropriate time and attention to employment services.

We therefore note with approval the fact that VR&C has finally received authorization to create a new position of employment specialist. Currently, there are approximately 4,600 veterans needing employment services at any given time. We recommend a workload of 100 cases per employment specialist, or 46 FTEE for employment specialists in VR&C. This should finally provide adequate employment services. It will also generate some relief for rehabilitation specialists. However, to deal with the excessive backlogs and their very negative consequences, more staff is needed.

We therefore recommend increased staffing to provide one vocational rehabilitation specialist for every 125 rehabilitation cases and one counseling psychologist for every 20 active counseling cases; currently, the rehabilitation specialists carry an average workload of 182 cases, and the psychologists an average load of 25 cases. Despite this staffing increase, the vocational rehabilitation specialists will still be carrying more than twice the workload of their counterparts in the state/federal program.

We also want to emphasize an urgent need for training VR&C staff in their specialized work. Suitable training programs are available through contract with the Department of Labor.

ADP Systems Management: Actively manage systems modernization. The ADP Systems Management program is focused on the modernization of DVB's computer and telecommunication systems in order to provide better services to veterans and their dependents and survivors.

We have made several recommendations regarding the direction systems modernization should take; the manner of the specific implementation of these recommendations is a matter for VA management. The VSO's do, however, expect a realistic and cost-effective assessment of ADP needs by DVB. VA management must make a determination of whether a supplemental appropriation should be sought for ADP systems development. If a supplemental appropriation is appropriate, we urge the Congress to approve it.

We again emphasize the need for rapid modernization of DVB automated systems and the critical need for development of ADP links with the rest of the VA — and possibly other federal agencies—to provide the integrated, modern computerized systems needed to render timely and accurate service to veterans and to permit high-level productivity from DVB employees.

Support Services: Maintain current staff. The Support Services component of DVB provides administrative, finance, and personnel office staff to the rest of DVB. We find performance in this area more adequate than in others, and do not recommend an increase in staff or an increase in other resources beyond that needed to cover inflation.

DEPARTMENT OF MEMORIAL AFFAIRS (DMA)

The Department of Memorial Affairs (DMA), the second VA department funded by the General Operating Expenses (GOE) appropriation, carries out three main activities. For one, it inters deceased veterans, as well as members of the Armed Forces, their spouses, and certain dependents, in national cemeteries that have available grave space. Second, it provides headstones for these burials in national cemeteries and also for burials in private cemeteries. Third, it administers the program of grants to states for state veterans cemeteries.

Maintain current staffing. We recommend continuation of the present level of DMA staffing. As Chart III shows, the number of interments, headstones provided, and graves maintained each year is increasing rapidly as the veteran population ages, and current staff is able to keep up with this increasing workload only through increasing efficiency.

We are proposing legislation that will result in an expansion of the national cemetery system. Our proposal is detailed in the chapters dealing with construction. When it is enacted, additional staffing and resources for DMA will need to be considered.

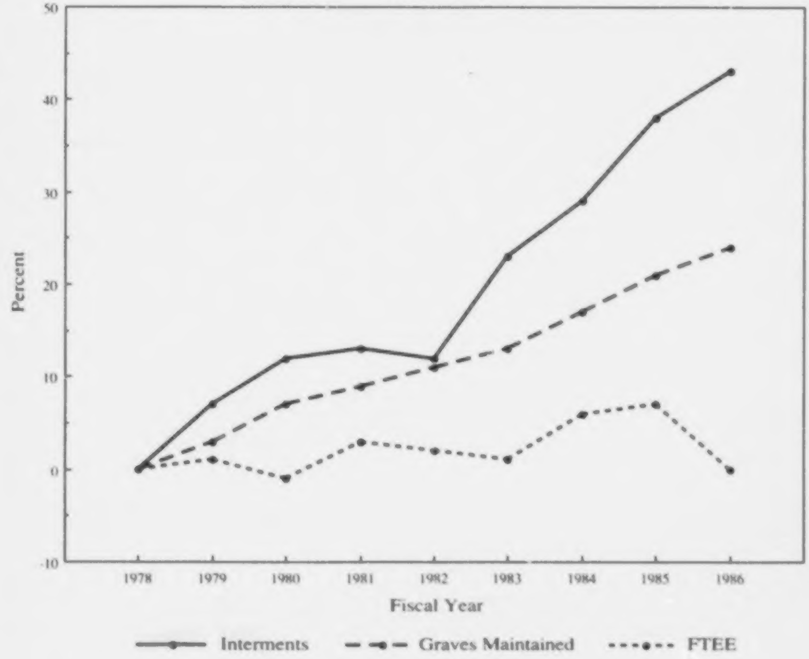
GENERAL ADMINISTRATION

General Administration, the third major function funded by the GOE appropriation, consists of the Office of the VA Administrator, other agency-level offices (except those involved with construction, procurement, and supply), support offices (such as information systems and telecommunications), and the Board of Veterans Appeals.

Maintain current staffing. Staffing and resources in this area are generally adequate and we recommend no increases beyond those needed to cover inflation. However, we stress again the need for agency-wide integration of EDP systems that require information from multiple VA departments.

Agency-level personnel must play a leading role in assuring that department-level staff work together to rapidly overcome current deficiencies in this respect and that new systems and system modernization provide for integration.

Chart III
DMA Workload and FTEE
1978 - 1986



Source: Veterans Administration

GRANTS FOR THE CONSTRUCTION OF STATE VETERANS CEMETERIES

This program provides for grants to states for the establishment, expansion, and improvement of state-operated veterans cemeteries. At relatively little cost to the federal government, it helps support a system of cemeteries reserved for veterans.

We recommend an appropriation of $3 million for FY 1989, which is in line with the level of spending in the program in the recent past. We also recommend legislation reauthorizing the program for an additional five years (FY 1990 through 1994). The legislation should authorize appropriations of up to $5 million a year, with each year's funds to be available for expenditure over three years.

BENEFITS PROGRAMS

BENEFITS PROGRAMS SUMMARY

The funding structure for veterans' benefits is complex. The VA's administration of benefits programs is funded through the General Operating Expenses (GOE) appropriation, which has been covered previously. The benefits themselves involve over a dozen accounts. Most of these accounts (particularly those for life insurance programs) are self-financing or funded by other government departments (principally by the Department of Defense) and require no VA appropriations. Only five benefits accounts require VA appropriations:

1. Compensation and Pensions
2. Readjustment Benefits
3. Veterans' Job Training
4. Loan Guaranty Revolving Fund
5. Veterans Insurance and Indemnities.

Only these five benefits accounts are treated in this Independent Budget. Our primary recommendations for these veterans benefits programs are:

- A cost-of-living adjustment (COLA) effective December 1, 1988 in veterans' benefit programs that is equal to the COLA applied in other federal programs. The VSOs are prepared to support a reduced or eliminated COLA as a deficit-reduction method if it is applied across the board. We estimate that a full COLA would be approximately a 4.5 percent increase.
- Updating the maximum grant amount for specially adapted housing for severely disabled veterans to $40,000 and updating the maximum grant amount for specially adapted automobiles to $5,530.
- Legislation to extend the eligibility date for the Veterans' Job Training Program to June 30, 1989.
- A $600 million appropriation for the Loan Guaranty Revolving Fund.
- Increasing the number of direct loans the VA is authorized to make.

Recommended appropriations for each of the five benefits accounts included in the Independent Budget are shown in Table VII, "Benefits Programs Appropriations," and the next five sections of the Independent Budget are devoted to each in turn. For the other benefits accounts, we recommend continuation of current program activities and funding mechanisms.

TABLE VII
BENEFITS PROGRAMS APPROPRIATIONS
(dollars in thousands)

Benefits Accounts	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
Compensation, pension, and burial benefits	14,422,500	14,334,300	14,334,300	14,793,000	14,793,000
Readjustment benefits	763,300	625,700	625,700	597,600	597,600
Veterans insurance and indemnities	4,800	14,300	14,300	9,220	9,220
Veterans' job training	30,000	0	0	0	0
Loan guaranty revolving fund	100,000	390,000	390,000	600,000	600,000
TOTAL BENEFITS PROGRAMS	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820

*Funds necessary to maintain services at the FY 1987 level

COMPENSATION AND PENSIONS

Compensation and pension appropriations provide funds for payment of compensation, pension, and burial benefits, and also some miscellaneous benefits.

OUR STRATEGY

Our primary strategy for this appropriation is to provide for *equitable* cost-of-living allowance (COLA) increases. Veterans are willing to bear their fair share of economies needed to reduce the deficit, and we will accept a reduced COLA if the Social Security COLA is similarly reduced and federal contracts are adjusted so that wage increases of contractor employees are similarly held down. However, veterans who served in wartime or who were disabled in the service of their country must not be made sacrificial victims of cuts not imposed on all others.

SPECIFIC RECOMMENDATIONS

Compensation: Provide $10.8 billion for FY 1989. Compensation is paid to veterans for disabilities incurred during active military service or aggravated during service. Death and Indemnity Compensation (DIC) is paid to survivors of servicepersons or veterans whose death occurred while on active duty or as a result of service connected disabilities. The rate payable depends on degree of disability (for living veterans), service rank (for survivors of veterans), and number of dependents for both veterans and survivors. In addition, a clothing allowance is provided for service disabled veterans who use a prosthetic or orthopedic appliance that tends to wear out clothing.

We recommend $10.8 billion for compensation for FY 1989. This excludes a full 4.5 percent cost-of-living allowance (COLA) effective December 1, 1988, which will require supplemental funding of $390 million.

The General Accounting Office (GAO) is currently conducting a broad study of the schedule the VA uses for rating the degree of a veteran's disability and the service connectedness of the disability. The VSOs are greatly concerned about the GAO study because of indications that it may be an attempt to change the basic philosophical foundation of the rating schedule. The VSOs believe that the rating schedule is an excellent guide for the adjudication of service connected disabilities. Any basic change in the rating system is a public policy issue, not a matter of fine tuning, and should be implemented only through legislative action by the Congress. The VSOs therefore oppose any backdoor approach, under whatever guise, to make fundamental changes in the VA's schedule for rating disabilities without due Congressional deliberation and explicit legislation.

Pension: Provide $3.9 billion for FY 1989. Pension benefits are paid to aged (65 or over) or disabled veterans of wartime service who have low income, and to their survivors. (There is no disability requirement for survivors.) Amounts payable depend on income and number of dependents. Pensioners who have come on the rolls since January 1, 1979 receive "improved law" pensions that include an automatic annual COLA increase equal to the Social Security COLA, count almost all income in determining income for pension eligibility, and reduce pension amounts dollar-for-dollar for every dollar of income from other sources. Over half of pensioners and more than four of every five pension dollars are paid under the improved law program. Older pension programs have major income disregards, little or no reduction of pensions for income from other sources, and no automatic annual increases.

Our recommendation of $3.9 billion for pension spending in FY 1989 includes the full, automatic 4.5 percent COLA increase for "improved law" pensions. Again, we stress that veterans are willing to bear their fair share of the burden of deficit reduction, but must not be singled out to be victimized.

Burial Benefits and Miscellaneous Assistance: Provide $145 million for FY 1989. We recommend $145 million for FY 1989 for this portion of the compensation and pension appropriation. All except $5 million is for burial benefits. These include burial and plot allowances, a flag to drape the casket of a deceased veteran, and furnishing a headstone or marker (or allowance therefore) for a veteran's grave.

Miscellaneous assistance totals $5 million, mostly for mortgage protection life insurance for service-disabled veterans.

The burial benefits are generally fixed-amount allowances. These modest tokens of the nation's last respect for those who served in the Armed Forces were cut in the "Balanced Budget and Emergency Deficit Control Act of 1985." The payment levels have been restored, and we counsel against similar cuts in the future.

READJUSTMENT BENEFITS

Appropriations for these benefits fund three types of programs:

1. Education and training (the "GI Bill") for Vietnam-era veterans and for dependents of veterans who died of a service connected disability or who have a permanent and total service connected disability. Expenses in this category are declining as Vietnam Era veterans exhaust their eligibility.

2. Special assistance to disabled veterans. This includes:

- A monthly subsistence payment plus tuition, books, etc., for disabled veterans enrolled in education or training as part of a vocational rehabilitation program. Most such beneficiaries are enrolled in college.

- Housing grants of up to $35,500 to aid certain permanently and totally disabled veterans in acquiring a specially adapted housing unit with the special fixtures and facilities necessitated by their disability.

- One-time grants of up to $5,000 for purchase of an automobile by certain severely disabled veterans and servicepersons. Additional funds for purchase and repair of special adaptive equipment for the automobile are also provided and are available on a recurring basis.

3. Education and training under the "New GI Bill" for all-volunteer force veterans and certain reservists. The Veterans Administration pays for basic benefits (up to $300 per month) for veterans. Bonus-related supplemental benefits for veterans are paid for by the Defense Department. Spending in these programs is increasing because the first groups of eligible veterans are just beginning to use these benefits.

SPECIFIC RECOMMENDATIONS

Increase the maximum special adaptive housing grant to $40,000 and increase the maximum grant for adaptive automobiles to $5,530 to keep up with rising costs. The maximums have not been increased since 1985. These recommended increases are in keeping with the provisions of S9, the Omnibus Veterans' Benefits and Services Act of 1987, now making its way through the legislative process in the Senate. Because separate authorizing legislation is required to implement these recommendations, funding is not being requested in the Independent Budget.

VETERANS' JOB TRAINING

This program was established by the Emergency Veterans' Job Training Act of 1983 to relieve unemployment among Korean conflict and Vietnam-era veterans who were unemployed for long periods of time. Under existing law, the eligibility date for these benefits expires on June 30, 1988, and no appropriation for FY 1989 would be required.

We recommend an extension of the program to June 30, 1989.

Again, because authorizing legislation is necessary to implement this recommendation, funding for it is not included in the Independent Budget.

LOAN GUARANTY REVOLVING FUND

The Loan Guaranty Revolving Fund appropriation provides some of the funds required by the VA mortgage loan guaranty program. A fee equal to one percent of the loan amount together with income from the loan portfolio provide the remainder of the financing for the fund. The program's objective is to assist veterans in purchasing homes by substituting the federal government's guaranty of the loan for the security usually provided by a down payment (and by a shorter term of the loan). Thus veterans are able to purchase homes without making a down payment and with lower monthly payments (because of the longer loan term). Veterans with a service connected disability of 10 percent or more are exempt from the one-percent fee.

This program is important for veterans and for the nation. By assisting more than 12 million veterans in purchasing homes, it has played a major national role in fostering the American dream of home ownership, as well as increasing the tax base of virtually every community in the United States.

SPECIFIC RECOMMENDATIONS

End accelerated loan sales, increase the number of direct loans the VA is authorized to make, and appropriate $600 million for FY 1989. Appropriation requirements for the Loan Guaranty Revolving Fund are highly variable from year to year. They depend on the number of defaults, on whether the VA acquires the defaulted properties or merely pays off defaulted loans, and on how rapidly and in what manner the VA disposes of homes and loans it has acquired.

This fund is currently in a significant deficit situation; $390 million has been appropriated for FY 1988. We recommend an appropriation of $600 million for FY 1989 in light of the growing deficit in the fund. Accurate estimation of the fund's needs is difficult, given its current problems, and we urge the Congress to fully address the programmatic and financial problems of the fund. A significant part of the problem is due to economic and market conditions that are extremely adverse in certain areas of the country (notably the Southwest). The VSOs believe, however, that a major part of the problem has been caused by the OMB-directed policy of the accelerated selling of portfolio assets held by the fund. This policy is short-sighted at best, producing immediate income by sales at "bargain basement" prices. In other words, it forces a giveaway of government assets—i.e., the property of the American taxpayer—at prices frequently below those that would be realized by selling at a more reasonable point in time. In the medium and longer term, this policy virtually guarantees continuing deficits in the fund because of a loss of income from the fund's assets to offset its expenses. (The income is not available because the assets that would produce it have been sold.) We believe that this is a bad business practice, and urge the Congress to stop the OMB policy of accelerated portfolio loan sales. Undermining the future of this longstanding and successful program through fiscal myopia would be a grave error.

In addition, we are recommending that the Congress increase the number of direct loans the VA is authorized to make to eligible veterans. Before 1980, the VA direct home loan program produced significant income for the revolving fund—income that was available to offset any indebtedness incurred by the program. While increased appropriations will be required to implement this recommendation, the VSOs believe that it represents a fiscally responsible initiative to ensure the long-term security of the VA home loan guaranty program, as well as to reduce future appropriations needed to offset indebtedness incurred by the program.

We also oppose any increase in the one-percent loan fee, including the more than doubling to 2.5 percent that the Administration has proposed in the past.

VETERANS INSURANCE AND INDEMNITIES

The Veterans Insurance and Indemnities appropriation primarily provides supplemental funds for the service-disabled veterans' insurance fund so that service-disabled veterans may obtain life insurance at the same rates charged to non-disabled veterans. We recommend an appropriation of $9 million in FY 1989.

MEDICAL PROGRAMS

MEDICAL PROGRAMS SUMMARY

Funds exclusively for VA medical programs are provided through five appropriation accounts:

1. Medical care

2. Medical and prosthetic research

3. Medical administration and miscellaneous operating expenses (MAMOE)

4. Grants for construction of state extended care facilities

5. Grants to the Republic of the Philippines.

VA medical programs are operated by the VA's Department of Medicine and Surgery (DM&S). Our recommendations for the five medical appropriations are detailed in the five sections that immediately follow. (Construction of VA facilities, which primarily serves medical programs, is funded by separate appropriations and covered in a separate section of this year's Independent Budget document. However, the need for some construction activities is mentioned in discussing the medical programs they support.)

SPECIFIC RECOMMENDATIONS

Our primary recommendations for the five medical appropriations are:

- Restrict program enhancements to meeting the growing demand for medical care (rather than research, administration, or other activities) in light of the need for budget austerity.

- Fully fund cost increases necessary to maintain current services—i.e., to maintain services at the FY 1987 level. This is particularly critical in research and grants for state extended care facilities; serious cuts will result in FY 1988 and 1989 if these increases are not funded. Fully funding the current services level in VA medical programs requires approximately $50 million more than has been appropriated in FY 1988 and a further increase of approximately $390 million for FY 1989.

- Rapidly expand non-institutional long-term care in recognition of the particularly rapid increase in demand for long-term care that accompanies aging. This includes increased hospital-based home care; more adult day health programs, community residential care, and geriatric evaluation units; more geriatric research, education, and clinical care centers; more respite care programs and hospices, all at a total cost of $47 million.

- Expand nursing home programs, recognizing the inevitability of an increased nursing home census despite rapid expansion of non-institutional long-term care. We recommend an increase of approximately 3,000 in census in VA, community, and state nursing home programs at a combined total cost of approximately $43 million.

- Rapidly expand outpatient acute care to 21.4 million staff medical visits in FY 1989, with the provision of $90 million for this purpose, while inpatient care, which is far more costly, is held constant.

- Enact statutory provisions extending entitlement for outpatient care to all Category A veterans, the veterans who now have entitlement to inpatient care. This entitlement is estimated to involve no net costs.

- Support a continued prominent role in AIDS treatment (the VA is treating about 7 percent of all U.S. AIDS patients) funded with the $50 million increment expected to be required for caring for these patients.

- Conduct a survey to determine veterans' unmet need for VA medical care.

- Initiate a multi-faceted program to enhance the VA's recruitment and retention of critical health care professionals.

- Place a floor under resources allocated to VA psychiatric hospitals and services, with the floor at the level of FY 1987 obligations (and adjusted upward annually for payroll and inflation increases).

- Enact statutory provisions requiring the VA to pay the costs that Category A patients incur in traveling to and from VA health care facilities (above a per-trip deductible).

Table VIII, "Medical Appropriations Summary," shows the budget amounts we recommend for each of the five medical program appropriation accounts. Table IX, "Department of Medicine and Surgery Summary," shows how these budget amounts divide up between current services funding and program enhancements. Table X, "Department of Medicine and Surgery Employment," shows the employment levels we recommend in medical programs. (DM&S employment is over 90 percent of the VA's total.)

PRINCIPLES AND GUIDELINES

These recommendations for medical programs are based on a carefully developed set of 15 principles and guidelines, which follow:

1. VA patients should have available to them a sufficient quantity and balance of the various types and levels of medical care to promote maximum efficiency in the use of resources in the VA continuum of care.

2. High cost/high technology programs should be placed so that equity of geographic access is ensured for all entitled veterans. These programs should be maintained only where workload volume standards can be met within a reasonable period of time. Sharing arrangements and joint ventures should be encouraged as a means of providing the benefits of such programs with quality, efficiency, and improved geographic access.

3. High cost items, such as magnetic resonance imaging (MRI) and other expensive imagining equipment, should be identified as new budget initiatives in a separate budget line item until the cost of such technology is annualized and absorbed throughout the VA health care delivery system.

4. Equipment needs to be replaced based on schedules that recognize the rapidly changing character of medical technology and acknowledge technological obsolescence as an important factor in limiting the useful lifetime of equipment.

5. The inflation index for increments in the VA medical care budget should reflect increases in

TABLE VIII
MEDICAL APPROPRIATIONS/FUNDS
SUMMARY
(dollars in thousands)

Medical Program Appropriation	1987** Appropriation	1988 Appropriation	1988 I B Current Services*	1989 I B Current Services*	1989 IB Recommended Appropriation
Medical Care	9,712,800	10,120,000	10,158,000	10,540,900	10,818,800
Medical and Prosthetic Research	192,800	193,000	203,600	209,300	209,300
Medical Administration and Misc. Operating Exp.	41,800	47,000	47,500	48,940	48,940
Grants for Construction of State extended care	42,400	40,300	42,400	42,400	42,400
Grants to the Republic of the Philippines	500	500	500	500	500
TOTAL MEDICAL PROGRAMS	9,990,300	10,400,800	10,452,000	10,842,040	11,119,940

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

health care industry cost indices. (The hospital market basket index and its components are available for this purpose.)

6. In planning for the VA health care system, greater attention needs to be paid to the interaction among the pluralistic systems of health care in the United States (e.g., impact on the VA of reductions in Medicare and Medicaid funding, increases in co-payments, etc.).

7. The Veterans Administration should intensify its efforts to develop, demonstrate, and implement cost effective non-institutional health care alternatives. The VA has been a leader in vertically integrated health care delivery systems and should continue its leadership role. Increased commitment to a realignment of VA health care delivery modes is needed.

8. The balance among modalities needs to shift in response to the growing impact of the needs of the aging veteran group. In particular, the VA must move swiftly and energetically to convert hospital capacity to meet nursing home care, other extended care, and ambulatory care needs.

9. The increase in VA nursing home beds obtained in recent years from new construction and from acute bed conversions is grossly lagging if the increase in demand during the coming decade is to be accommodated. VA expansion needs to be more rapid.

10. The VA should make greater use of mid-level health care providers. This is particularly applicable to the staffing of nursing homes and other long-term care facilities.

11. Changes in the budget for the VA health care system should be based upon changes in the VA user population and on workload projections for the system that are based on current experience, past trends, and anticipated changes.

12. Resources needed for activating newly constructed facilities should be accurately reflected in budget submissions and then provided in full as the facilities are activated.

13. Beneficiary travel (reimbursement for out-of-pocket travel expenses) should not be coupled with the cost of interfacility transfer of patients. To clarify the difference between interfacility transfer and beneficiary travel, both should be separate and adequately funded line items in the budget. This will ensure that they do not become a drain on direct health care dollars.

14. The Veterans Administration should share its quality assurance and cost effectiveness activities and results with the community.

15. Within every VA medical facility, the integrity of the clinical team involved in direct patient care should be maintained, with VA management and staffing of the team. Only industrial-type services should be considered for contracting out, and then only if cost savings can be achieved.

MEDICAL CARE

The medical care appropriation provides 97 percent of the funds for the VA health care system (construction excluded). It covers the delivery of VA health care in VA medical centers and other VA health care facilities. This care includes inpatient hospital care, outpatient care at both hospitals and free-standing clinics, institutional long-term care in nursing homes and domiciliaries, and several types of non-institutional long-term care. Also included in the medical care appropriation are the costs of the large-scale education and training programs conducted in VA health care facilities. In addition, the medical care appropriation pays for care of veterans in non-VA facilities in the special circumstances under which the VA is authorized to pay for such care.

TABLE IX
DEPARTMENT OF MEDICINE AND SURGERY SUMMARY
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	Appropriation*	10,400,800
FY 1988	Supplemental Funds Required	
	Payroll Increases	2,300
	Health Increases	800
	Other	46,000
FY 1988	Current Services Level*‡	10,452,000
FY 1989	Payroll-related Increases	112,940
	Inflation	202,900
	Facility Activations	200,000
	Decrease in Capital Investment	(134,000)
	Miscellaneous	8,200
FY 1989	Current Services*‡	10,842,040
	Initiatives:	
	Medical Care	277,900
FY 1989	IB RECOMMENDED APPROPRIATION*	11,119,940

*Obligation levels would include an estimated $66,200 in reimbursements.

‡Funds necessary to maintain services at the FY 1987 level.

THE CHALLENGE

The three challenges described in the Budget in Brief—aging, unmet need, and budget austerity—all confront the VA's medical care program.

The Aging Imperative

Beginning in the 1980s, many of the World War II and Korean War veterans (the largest groups of veterans) turn 65. The figures are dramatic, as Chart IV shows. In 1980 there were 3.0 million veterans 65 or older; by 1990 there will be 7.2 million. By the mid-nineties, one-third of all veterans will be over the age of 65. By the year 2000, there will be 9 million veterans in this age group and they will constitute two-thirds of all American males over age 65. As people age—particularly as they age beyond 65—they require progressively more health care, with their need for long-term care growing even more rapidly than their need for acute care. A few statistics on veterans' actual use of VA care prove the point. Although veterans aged 55 to 64 are the highest users of VA inpatient hospital care among veterans under 65, veterans 65 to 74 use VA inpatient care about one-third more often (see Chart V). For veterans 75 to 84 the use rate is, in turn, almost twice that for veterans 55 to 64. Although this increase in use of VA inpatient hospital care is dramatic, it is small compared to the statistics for nursing home care. As Chart VI shows, nursing home use by men 85 and older is almost 30 times the rate of use by men 55 to 64.

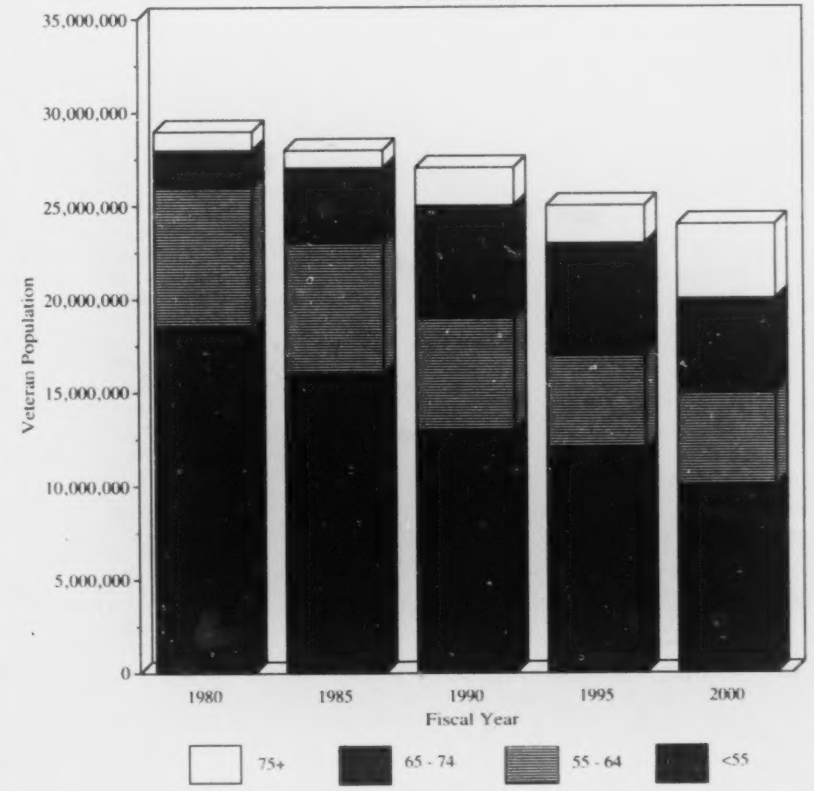
TABLE X
DEPARTMENT OF MEDICINE AND SURGERY
EMPLOYMENT

Medical Program Appropriation/Fund	FY 1987 Actual	FY 1988 Estimate	1989 IB Recommended Appropriation
Medical Care	194,420	194,140	199,540
Medical & Prosthetic Research	4,274	4,817	4,817
Medical Administration and Miscellaneous Operating Expenses	874	880	880
Common Service Revolving Fund	3,348	3,800	3,300
Total Employment	[illegible]	[illegible]	207,000

Meeting this rapidly growing and changing need of the aging veteran population is a very significant driving force behind our policy for the medical care appropriation.

The VA's 1984 publication, "Caring for the Older Veteran," stated, "the VA stands prepared to meet the real expanding and changing health care needs which result from the aging of the veteran population," and there followed a comprehensive analysis of the extensive facilities required for even partial satisfaction of this aging imperative through the coming decade. Very little attention has since been given to this preparation. Gross delays in accomplishing any meaningful conversion of excess hospital beds to nursing home care use is a case in point. Considering the long VA lead time for any proposed facility construction, time is already short if the health care system is to be ready for the expected heavy onslaught of medical care demand.

Chart IV
Veteran Population
FY 1980 - 2000



Unmet Need

Quite apart from the growth in demand the VA health care system faces each year, it already, *currently*, faces serious problems of unmet need. These include both (1) problems of unmet need that remain after the changes in entitlement and eligibility for VA care enacted in 1986 in PL 99-272, and (2) problems of unmet need generated by developments in health care both within the VA and external to it.

The VA health care system has always been distinguished for offering patients a comprehensive, coordinated continuum of care. However, as entitlement and eligibility rules now stand under PL 99-272, most veterans in Category A, with clear entitlement to inpatient care are not entitled to outpatient care except in very restricted circumstances.[2] (These special circumstances are (1) "to obviate the need" for inpatient care and (2) as a follow-up to inpatient care.) In our discussion with top management officials across the VA health care system, we found that the majority of VA medical centers are greatly reducing access to ambulatory care by restrictive use of the "obviate-the-need" clause. This is a dollar-driven decision made irrespective of a physician's professional judgment. Some hospital managers stated that because of inadequate resources only in acute emergencies are non-service-disabled medically indigent veterans provided ambulatory care. Basing a decision to provide or deny medical care on a variable and financially motivated interpretation of "obviating the need" for hospitalization leads to poor management of chronic illness—which requires regular, periodic care. It is bad medicine—and often bad economics—to turn away veterans needing outpatient care on the grounds that their current condition is not sufficiently severe to require hospitalization. It invites acute, serious, and costly complications and is also a contradiction of the current national emphasis on non-institutional care.

Needy veterans turned away from the VA because of its tight restrictions on ambulatory care are likely to have no alternatives to the VA care they are denied other than Medicaid, and males under age 65 generally are not eligible for Medicaid no matter how poor they are. Thus, these veterans are likely to add to the uncompensated care burden that private providers are increasingly shunning, or to fail entirely to obtain care when it is needed.

(The Medicaid patient, incidentally, is provided ambulatory care regardless of the likelihood of hospitalization, an arrangement certainly more cost-effective than is inviting a crisis need for acute inpatient care through patient neglect.)

Chart V
VA Hospital Discharge Rates
FY 1987

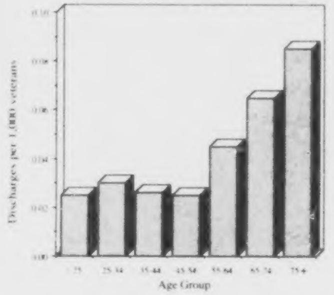
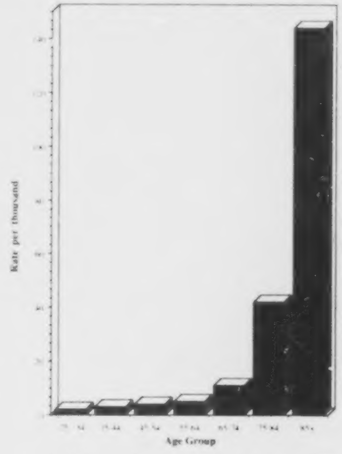


Chart VI
Nursing Home Use Rates
1985*



*1985 male civilian use rates from National Nursing Home Survey

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[2] Category A consists of service-disabled veterans, ex-POW's, veterans of WWI or earlier conflicts, veterans exposed to ionizing radiation and Agent Orange, recipients of VA pensions, veterans with Medicaid, and other low-income veterans. In total, Category A veterans number about half of the nation's 28 million veterans.

Restrictions on outpatient care are not the only major challenge of unmet need for VA health care. Recent VA outreach activities conducted as part of the federal-government-wide homelessness initiative have shown further unmet need. Several thousand homeless veterans have been found, many of them with very extensive needs for medical care (most prominently for psychiatric problems). This is at a time when VA psychiatric staffing has been reduced by 2,000 FTEE during the past five years.

We have also learned from VA hospital officials of several other problems in providing the full health care services VA patients need. Most prominent among these are:

- Closure of bed units or *de facto* restriction in the number of patients treated on some units due to staffing shortages.

- Cut-backs in operating room time, also due to staffing shortages.

- Failure to undertake relatively expensive elective surgery because of its cost.

- Inordinate delays in provision of expensive prostheses.

In addition, as we noted in last year's Independent Budget, the problem of unmet need arises because of the VA's cut off of beneficiary travel funds.

Finally, some veterans who need VA care do not know of their entitlement to it, and others have given up trying to obtain it because of barriers such as the absence of beneficiary travel reimbursement or the "obviate-the-need" clause. These, too, are veterans with unmet needs for VA care.

Budget Austerity

The third challenge that faces VA medical care today is the overall federal budget deficit. This imposes a requirement that the VA find the most economical solutions for addressing unmet need and for managing the demands of an aging veteran population.

OUR STRATEGY

In part, the funds needed to deal with the growing health care needs of the aging veteran population and with current unmet need are available because the aging veteran population uses benefit programs (as opposed to medical programs) less and less frequently. (Some specifics are pointed out above in sections on veterans' benefit programs.) As a result, in future years, the cost of benefits programs will increase less rapidly than inflation. All such savings should be regarded as funds available to meet health care needs.

Beyond this, our strategy to deal with unmet and growing need in light of budget constraints focuses on rapid expansion of non-institutional health care programs. This focus holds in both acute and long-term settings. These non-institutional care programs not only cost less than institutional care but also provide veterans more independence and more contact with their families and communities.

The historical roots of the VA system, like its affiliated academic health care centers, are in institutional care—hospital inpatient care on the acute care side and nursing home care on the long-term care side. Like the private medical sector, the VA system has been moving to more use of non-institutional care—that is, to expanding both outpatient acute care and a variety of non-institutional long-term care modalities—and the results this last year have been gratifying in some respects. A further shift to non-institutional care modalities must be an important thrust for the future.

Another aspect of our economizing strategy consists of restricting initiatives in medical programs solely to the medical care appropriation. Despite important needs in other areas (such as research and administration), in this year of great budget austerity, we propose initiatives solely in the medical care area, because that area directly affects patient care.

Another important component of our strategy for dealing with unmet need is to undertake a series of data-gathering activities to identify more accurately the extent and exact character of unmet need for VA care.

As the above discussion indicates, there is strong evidence that several kinds of unmet medical need are extensive. However, information on the size of each unmet need is not available—the VA has, unfortunately, failed to obtain this information.

SPECIFIC RECOMMENDATIONS

Our specific recommendations for putting this strategy into effect follow. We discuss first what is needed merely to maintain current services—i.e., to continue to provide the same level of VA medical care services as was provided in FY 1987. We then present the specific program enhancements we recommend. Table XI shows the specific budget dollar amounts that are part of these recommendations.

Current Services

Provide an increase of $38 million in FY 1988 and a further $383 million in FY 1989 to fully fund current services. As Table XI shows, the enacted appropriation for FY 1988 for medical care is $10,120 million. Congress stipulated that this funding was to support 194,140 thousand FTEE in the VA's medical care programs, essentially the FY 1987 level (see Table X). However, as Table XI also shows, approximately $38 million in supplemental appropriations is required in FY 1988 to maintain the 1987 level of program activity. (This amount needed to maintain FY 1987 levels of program activity is what we mean by "current services.") We call upon the Congress to appropriate the additional $38 million for FY 1988 so the VA will not have to cut into such already burdened spending categories as equipment purchase to sustain direct hands-on-care delivery.

Because of payroll-related increases, approximately $109 million more will be needed to maintain the same level of staffing in FY 1989 (see Table XI). The 1989 pay raise is the largest component of this increase. In keeping with our budgeting principles, we have included this pay raise "up front" rather than leaving the agency to be caught without all the needed funds, and forced to absorb the raise by cutting elsewhere, as OMB has often directed. For non-payroll items, inflation is expected to require an increase of approximately $200 million in FY 1989 appropriations over the FY 1988 level merely to maintain the same level of program activity.

Activations during the course of FY 1989 of facilities under construction are expected to require approximately $200 million (again, see Table XI). This sum includes both equipment needed for these facilities and staff to operate them during the part of FY 1989 after they open. Activation of facilities is a complex area for budget estimates and is one of the areas in which information available to us is least satisfactory. Therefore, we are unable to form a fully independent judgment on the amount likely to be needed in FY 1989.

We suspect that the estimate of $200 million may be too low because it assumes too much "slippage"—i.e., delay of activation beyond the planned opening date. However, we have used the $200 million estimate in order to be fiscally conservative. We do, however, want to reiterate the point made in Principle #12: There should be an end to *sub rosa* budget cuts made via arbitrary and excessive assumptions about the amount of slippage in activation dates that will take place. As an offset to activation costs, there are the costs of capital investments made in FY 1988 activations. These and other capital costs that do not recur in the FY 1989 base

TABLE XI
MEDICAL CARE
Components of Independent Budget Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION*	10,120,000
	Supplemental Funds	38,000
FY 1988	Current Services Level*§	10,158,000
FY 1989	Payroll-related Increases	
	Federal Empl. Retirement System	33,200
	Annualization of Pay Raise - 1988	27,200
	Annualization of FEHB - 1988	13,300
	Pay raise 1989	82,000
	Reduction of 2 workdays	(47,000)
	Facility Activations	200,000
	Capital Investment	(134,000)
	Adjustments to 1988 Base	
	Inflation	200,000
	Uncontrollable Workload Changes	
	State Home	5,900
	Miscellaneous	
	Property Rental	2,300
FY 1989	Current Services Level*§	10,540,900
	Extended Care Program	84,700
	Outpatient Workload Increase	91,200
	Postgraduate Inservice Training	9,000
	Education and Training	11,000
	DHCP	22,000
	Beneficiary Travel Increase	30,000
	AIDS	50,000
	Contract Hospital Payment Reform	(20,000)
FY 1989	IB RECOMMENDED APPROPRIATION*	10,818,800

*Obligation level would include an estimated $60,000 in reimbursements
§Funds necessary to maintain services at the FY 1987 level

total a net of some $134 million.

While discussing capital investments, we want to express our concern about the likelihood that the VA backlog of equipment needs is growing and has become excessive. According to some tallies, this backlog exceeds one-half billion dollars. We know that in some cases the VA is using outmoded equipment, but we do not have the detailed information that would permit us to propose a specific program of remediation. However, we would point out that inadequate funding for equipment resulting in use of outmoded equipment means the VA is prevented from providing up-to-date medical care in at least some instances. The problem is compounded by the VA's use of lifetime schedules for equipment that do not adequately reflect technological obsolescence as a factor in the need to replace it.

Combining all the previous adjustments (plus the smaller ones shown in Table XI, but not discussed here) shows that the current services level for the medical care appropriation for FY 1989 is $10,541 million. It is important to recognize that while this figure is more than $400 million dollars above the funds provided by the already enacted FY 1988 appropriation, an increase of this size is required merely to continue to provide the same level of services in FY 1989 as was provided in FY 1987.

This $400 million plus for current services exceeds the amount needed to cover all our recommended program enhancements. *In other words, the largest portion of the dollar increase we recommend is not for new or expanded activities, but is required just to keep up with rising costs of the existing base of health activities.*

Program Enhancements

Fund enhancements totalling $278 million. Most of our recommended program enhancements consist of enhancements of extended care programs and expansion of outpatient care. As noted above, aging creates a need for particularly rapid expansion of extended care services, and outpatient care is being emphasized both because it is currently constricted and because it is an economical modality of care. Most of our recommended enhancements represent steps toward targets for 1990. These targets are shown in Table XII.

We have, in some cases, taken our targets for non-institutional extended care from "Caring for the Older Veteran," the VA's own document on how the agency

TABLE XII
1990 WORKLOAD TARGETS

VA Hospital Inpatients Treated	1,100,000
Contract Hospital ADC (Average Daily Census)	7[illegible]0
Staff Outpatient Visits	*22,100,000
Fee Basis Outpatient Visits	1,880,000
State Home Nursing ADC	10,480
VA Nursing Home ADC	14,800
Community Nursing Home ADC	13,300
VA Domiciliary ADC	7,000
HBHC Programs — Contract and VA	100
ADHC Programs — Contract and VA	100
Geriatric Evaluation Units	172
GRECC Programs	25
Respite Programs	172
Hospice Programs	76
Community Residential Programs	172

*includes dialysis visits

must change and expand to meet the challenge posed by the aging of the veteran population. However, in taking targets from this source, we have been conservative in three ways. For one, we have taken the lower end of the range of the 1990 estimates in "Caring for the Older Veteran" as our target. Second, we have planned to meet targets through innovative, economical responses. Finally, in some areas, our initiatives are far short of the steps that would be needed to meet the targets by 1990. We judged the increases that would be needed as just too costly. Table XIII details the actual extended care workload levels we expect to reach in FY 1989.

The methodology used for developing workload targets is explained along with targets in each area.

Extended Care

Fund expansions totaling $85 million and 1,300 FTEE in FY 1989. The most complex initiative we propose is in the field of extended care. In it, we have emphasized non-institutional forms of care for several reasons. For one, they maximize veterans' independence and the extent to which veterans in need of care remain in familiar home and community settings, among relatives and friends. These results are desirable

TABLE XIII
EXTENDED CARE INITIATIVES

PROGRAM TITLE	FY 1988 WORKLOAD	FY 1988 PROGRAMS	FY 1989 WORKLOAD	FY 1989 PROGRAMS	FY 1989 ADDITIONAL OBLIGATIONS**	FY 1989 ADDITIONAL FTEE
VA NURSING HOME						
Census*	11,643	122	13,300		26,100,000	609
COMMUNITY NURSING HOME						
Census*	12,250	163	12,650		11,200,000	0
VA DOMICILIARY						
Census*	6,500	27	6,500			
HBHC						
VA Programs		68		80	3,530,000	72
Contract Programs				10	2,500,000	0
ADHC						
VA Programs		15		25	3,550,000	80
Contract Programs		35		55	6,320,000	0
COMMUNITY RESIDENTIAL PROG.						
Programs		125		150	1,640,000	50
GERIATRIC EVALUATION UNITS						
Programs		80		150	10,190,000	210
GRECC						
Programs		12		16	10,380,000	48
RESPITE						
Programs		1		81	1,250,000	40
HOSPICE						
Complete Programs		2		50	5,990,000	144
TOTAL					84,700,000	1,300

*Average daily patient population
**In actual dollars

in and of themselves. Second, the emphasis on non-institutional long-term care helps rectify the balance in the VA system, which has large, long- established institutional long-term care programs (the nursing home and domiciliary programs), but less extensive non-institutional programs. Finally, but certainly not least important for this budget, non-institutional care usually is less expensive. Any given level of funding can bring extended care to many more veterans if it is used for non-institutional long-term care than if it is used for institutional care.

1. As Table XIII shows, the **expansions of non-institutional extended care programs** we propose are as follows:

- **Increase VA Hospital-Based Home Care (HBHC) programs from 68 to 80 and also initiate the first ten contract HBHC programs at a cost of approximately $6 million.** HBHC allows for the early discharge to their own home of veterans with chronic illness, who (for the most part) are expected to remain bedbound or housebound. HBHC also reduces readmissions to the hospital. The veterans' families provide the personal care the veterans need, under coordinated supervision of a hospital-based, multidisciplinary treatment team. This family provision of personal care keeps costs down. In turn, the team provides other types of care to veterans in the program including medical, nursing, social, dietetic and rehabilitation regimens. The VA team also provides needed training to family members who are responsible for the personal care of the patient. Patients and families find this program attractive because it preserves and supports the family unit by bringing health services to the home. A recently completed VA evaluation tested and proved the medical efficacy of VA HBHC. Already, the number of VA HBHC programs has increased from 30 in 1983 to a planned 68 in 1988, and the study shows the wisdom of a continued rapid expansion. VA medical centers have realized the desirability of having HBHC programs, and most of the recent increase has been accomplished from existing resources, without add-on funding earmarked specifically for initiating HBHC programs. The increase to a total of 80 HBHC programs recommended for 1989 is part of a strategy to reach 100 programs by 1990.

- **Increase Adult Day Health Care (ADHC) programs from 15 VA programs and 35 contract programs to 25 VA programs and 55 contract programs at a cost of approximately $12 million.** ADHC provides medical, rehabilitative, social, recreational, and health education services to veterans in a congregate setting during normal working hours. The provision of ADHC services enables veterans to live at home in a supportive environment rather than be institutionalized at a significantly higher cost of care. Patients referred to these VAMC-centered programs are usually, but not exclusively, elderly veterans in need of supportive medical/rehabilitative care to maintain function or to continue treatment. The VA's ADHCs are distinguished from senior centers and other social model day centers by their strong medically directed health care component. The number of ADHC programs has increased from five in 1983 to 50 in 1988. The recommended increase is part of a strategy to have 100 ADHC programs operating by 1990.

- **Increase Community Residential Care (CRC) programs from 125 to 150 at a cost of approximately $2 million dollars.** The CRC program provides residential care—including room, board, and limited personal care and supervision—to veterans who do not require hospital or nursing home care but who, because of medical or psychosocial health conditions, are not able to live independently and have no suitable family resources to provide needed care. There is no cost to the VA health budget for the care provided; veterans pay for this care themselves, often with their pensions. Costs to the medical care appropriation are for supervision of the program, including inspection of residential care homes. Veterans in the program receive monthly follow-up visits from VA health care professionals and are outpatients of their local VA medical centers. This continued VA involvement and VA responsibility for medical care assures the quality of both the residential and medical care received by patients in the program. The increase in the number of programs to 150 in 1989 is part of the long-term strategy outlined in "Caring for the Older Veteran." Our aim is to have community residential care programs operative at all 172 VA medical centers by 1990.

- **Increase the number of Geriatric Evaluation Units (GEUs) from 80 to 150 at a cost of approximately $10 million dollars.** GEUs provide comprehensive medical, functional, psychological, and environmental assessment to improve treatment and discharge planning for elderly patients typically having multiple medical problems. Geriatric evaluation units function in hospital settings, caring for patients who have secondary problems that are detected during the hospital treatment of a target illness. GEUs also function in outpatient settings. Here they serve to forestall or prevent inappropriate placements in extended care institutions. The objectives of GEUs include improving diagnosis, usually by identifying significant disabling conditions that, if untreated, could result in greater amounts of institutional care; improving treatment and management of chronic illnesses and concomitant medical problems associated with illnesses; and reducing inappropriate placement in long-term care institutions. Controlled studies show that GEUs often more than pay for themselves by reducing institutionalization of the patients they serve. VA medical centers have reorganized this direct cost-reducing aspect of GEUs and increased the number of GEUs from 60 in FY 1987 to 80 in FY 1988 without receiving additional funds specifically for expansion of the program. The proposed increase in the number of GEUs is part of a strategy to have GEUs functioning in all 172 VA medical centers by 1990.

- **Increase the number of Geriatric Research, Education, and Clinical Centers (GRECCs) from 12 to 16, making one a center dedicated to spinal cord injury and geriatrics and another a center for amputees and geriatics, at a total additional cost of approximately $10 million.** GRECCs are centers of excellence designed for the advancement and integration of geriatric and gerontological research, education, and clinical achievements into the total VA health care system. Implicit in this program is the development of new knowledge of aging and geriatrics, the codification of existing knowledge, the development and testing of alternative modes of geriatric care, and the education and training of health care professionals. An expanded GRECC program will allow the VA to maintain its clinical and educational leadership role in dealing with the problems of aging. It will foster the development of new approaches to care that meet the twin goals of improvement in care and cost containment. The increase in the number of GRECCs is part of the strategy outlined in "Caring for the Aging Veteran." The timetable with respect to GRECCs has slipped, and our current goal is to have 25 GRECCs, the maximum number currently authorized by statute, operating soon after 1990. This will come close to having a GRECC in every one of the VA's 27 medical districts.

Of the four new GRECCs, one should be a dedicated center for spinal cord injury (SCI) and geriatrics and another a center for amputees and geriatrics. Alternatively, we recommend redesignation of two of the existing GRECCs as such centers. The VA indicated an additional 3 FTEE and $250,000 would be needed to effectively carry out a change in mission to an SCI GRECC, and we recommend these resources be provided if the SCI GRECC is established by changing the mission of an existing GRECC.

- **Increase the number of formalized Respite Care programs from 1 to 81 at a cost of approximately $1 million.** Respite care enables an elderly or disabled veteran to be institutionalized periodically to allow a period of relief for the spouse or relatives who normally care for the patient. With this relief from ceaseless responsibility for care, the strain upon caregivers is reduced, and they remain willing to provide care for the veteran (rather than institutionalizing him) for a longer period. VA respite care strengthens the link between the VA, the veteran, and the caregiver, and has reinforced the critical role that the spouse and family play in providing care. Respite care programs produce their gains for an extremely low cost. They make use of temporarily empty hospital beds and the care staff associated with these beds, making the net program cost little more than the staff time required for program coordination. Although the VA health care system currently has only one formalized respite care program, numerous VA hospitals have been informally operating such programs for a number of years. Our strategy of increasing the number of programs to 81 in FY 1989 is a step on the way to our goal of having respite care programs operating at all 172 VA medical centers by 1990.

- **Increase the number of Hospices from 2 to 50 at a cost of approximately $6 million dollars.** The hospice program enhances quality of life for veterans with terminal illnesses. Through use of the Hospital-Based Home Care (HBHC) team, it allows many of these patients to remain at home among familiar surroundings and family. Hospice programs also include an inpatient palliative care unit for terminally ill patients who cannot be cared for at home. As its name suggests, the objective of this unit is relief of symptoms and comfort for the patient. Hospices also provide bereavement counseling to a patient's family after his death.

2. **Nursing homes. Increase the nursing home census by approximately 3,000 at a cost of $43 million.** Despite the preceding major expansions of non-institutional extended care, an increase in institutional long-term care remains necessary to serve the growing number of veterans whose severe functional limitations make it impossible to care for them in a non-institutional setting.

Our targets for nursing home care are based on new analysis grounded in the 1985 National Nursing Home Survey.[3] Data from this survey first became available this year, and the VA's planning for nursing homes has not yet incorporated this important new source of information. The 1985 survey shows that nursing home use rates for each age group are no longer increasing, contrary to the pattern found in earlier surveys. (The most recent earlier survey covered 1977.) Our planning therefore assumes a constant use rate for each age group of veterans, much as shown in Chart VI, with future increases in the number of veterans in nursing homes resulting only from aging of the veteran population. Based on the new survey, the number of veterans in nursing homes under VA auspices was estimated to be 20 percent of all veterans in nursing homes, and our targets assume a continuation of this 20 percent rate. In addition to VA-owned and operated nursing homes, this 20 percent of all veterans in nursing homes will be accommodated in state nursing homes for veterans, for which the VA provides construction and operating subsidies, and in community nursing homes that contract with the VA to provide care for veterans.

Much of the VA's planning for an increased nursing home census has been based on the premise that the large majority of the increase should be undertaken in the state and community nursing home programs that the VA supports, since their costs to the VA are lower than those of VA-operated nursing homes. A commonly stated goal is for 40 percent of the census to be in community nursing homes (up from 39 percent in 1987), 30 percent to be in state homes (up from 27 percent in 1987), and 30 percent to be in VA nursing homes (down from 35 percent in 1987). Such plans assume that major expansions will occur in available state and community nursing home space.

We are skeptical. Largely as a Medicaid cost-control device, many states have frozen or severely restricted construction of new nursing homes within their borders. In this climate, availability of more places for VA-sponsored patients is questionable. Any increase in VA-sponsored census is likely to require displacing other patients, which will create strong resentments in the community. Moreover, an increase in VA census is likely to create a bidding war against Medicaid, with the likely result being higher costs to the federal government for both Medicaid and VA health care. As regards the state home program, states have shown only a limited willingness to accept the VA's construction subsidies for state veterans nursing homes, since most of the cost of operating these state homes is borne by state budgets. Thus, a very rapid increase in the capacity of state veterans nursing homes seems doubtful.

Our planning is based on the maximum expansion that currently seems feasible in the state and VA-operated nursing home programs, with the community nursing home program providing the additional places needed. Chart VII shows the VA-sponsored nursing home census included in our plans.

In the near term, we have planned for the VA nursing home program to incorporate the beds added by nursing homes now in the construction "pipeline" and also to grow through conversion of approximately 1,000 VA hospital beds a year. However, if projected bed conversions are to be accomplished, a very prevalent negative attitude on the part of many VA hospital administrators and clinicians must be overcome. The FY 1987 VA budget called for the conversion of 113 beds and the VA's FY 1988 budget promised the conversion of 547, but no significant number of these conversions has yet been accomplished. Moreover, the FY 1987 MEDIPP plan proposed the conversion of only 1,085 beds by 1991, an inadequate number if projected need is to be met. The attitudes hostile to conversion must be overcome by top management of the VA medical system, and our targets for conversions must be achieved.

For the longer term, we propose to add almost 500 VA nursing home beds a year through the completion of four new 120-bed nursing homes annually. Work on these new nursing homes must start now—and appropriations for four of them are included in our FY 1989 construction budget[4]—because it takes several years from initial construction planning to completion of a VA nursing home. (The construction program required by VA nursing home expansion is described below, in the chapter dealing with construction.) In the longer term, we also envisage adding approximately 500 to 1,000 VA nursing home beds a year through conversion of available hospital beds to nursing home space.

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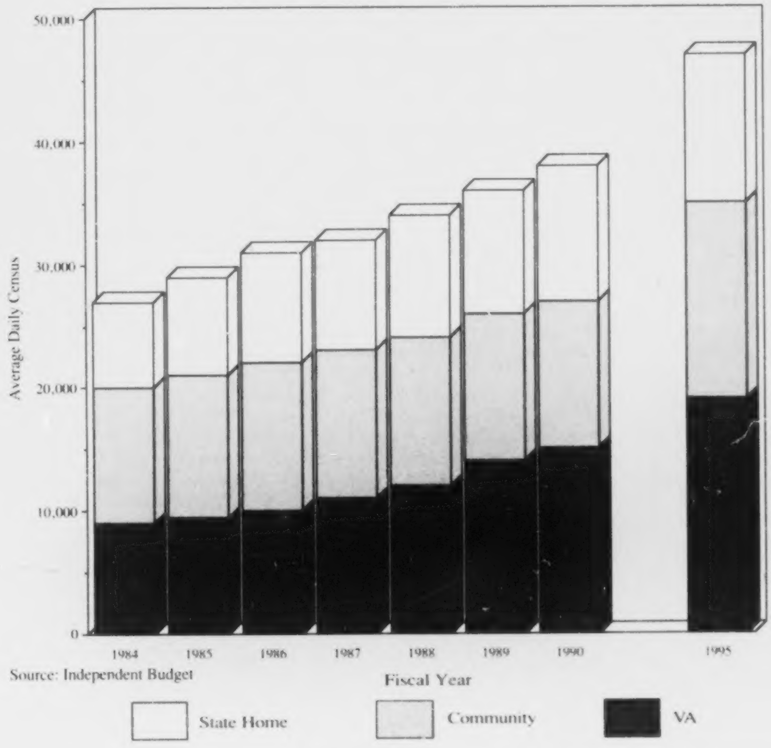
[3] While the National Nursing Home survey is recognized as the authoritative source of data on nursing homes, one should bear in mind that nursing home utilization during the study period was constrained by external factors that may not continue to exist in the coming decade. These factors included moratoria in many states on the construction of additional nursing homes and federal budget cuts in Medicaid.

We recommend a conversion goal that is this flexible and modest because the opportunity for conversion is often more limited than it first appears. There is a geographic problem in that excess acute care beds are not always available for conversion in areas where more nursing homes beds are needed. Moreover, nursing homes require large, contiguous blocks of space, not a few odd beds here and there, and also require recreational and social meeting space. For this reason, we recommend 60 bed blocks as the optimum unit size for conversion to nursing home use. Blocks of space available for conversion

Chart VII

Average Daily Census - VA Nursing Home Program

FY 1984 - 1995



Source: Independent Budget

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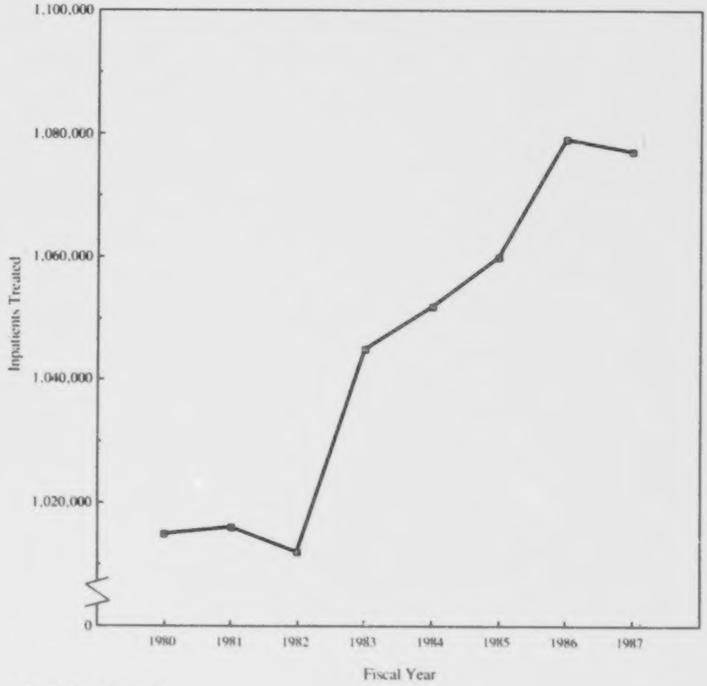
[4] We are not attempting to dictate the sites for this construction, but note that the previously proposed Palm Beach nursing home project is particularly needed.

include beds occupied by hospital inpatients who require a nursing home level of care although they are classified as intermediate care patients. Blocks of beds smaller than 60 should be converted where nursing home beds are needed and the conversion can be accomplished in a cost-effective manner—especially if expanding community nursing home placements is not feasible or desirable.

It is important to note that the conversion of empty beds from acute hospital care to nursing home use does not free up care staff and funds for use in providing the nursing home care. The care staff assigned to hospital patients remains fully occupied. Basically, the amount of work involved in caring for inpatients depends on the number of patients treated, and this has not declined. The inpatient hospital care census has declined only because more intensive care, which requires more staff per patient, is being provided to inpatients, and it is only this more intensive care that permits the inpatient hospital census to be lower. Moreover, hospital staff are more occupied than before because of the increased number of outpatients being seen.

As shown in Tables XII and XIII, our specific plans call for increasing the census in VA-operated nursing homes from approximately 11,600 in 1988

Chart VIII
VA Hospital Patients Treated *
FY 1980 - 1987



* Excludes dialysis

to some 13,300 in 1989 and 14,500 in 1990. The staff associated with the 1989 increase (approximately 600 FTEE) and the associated cost (approximately $26 million) are shown as part of our extended care initiative in Table XIII. To meet the overall needs for nursing home care, we are also proposing an expansion of the community nursing home program from an average daily census (ADC) of approximately 12,250 in FY 1988 to 12,650 in FY 1989, at a cost of approximately $11 million, and an expansion of the state veterans nursing home program with an increase in census of approximately 900—at a cost of $6 million. (VA budget accounting, which we have followed, counts this $6 million for expansion of the state veterans nursing home program as part of the current services increase, as shown in Table XI.)

Chart VII shows the increase in the census in the three VA-sponsored nursing home programs that have occurred in recent years and the increase that we recommend for the future.

Hospital Inpatient/Outpatient Workload

Freeze inpatient hospital care. Despite the aging of the veteran population and the broadening of eligibility and entitlement brought about by PL 99-272 (which stipulates that the VA shall provide inpatient care to all Category A veterans who need and seek it from the VA), the number of patients treated[5] as inpatients in VA medical centers was essentially the same in FY 1987 as in FY 1986, as shown in Chart VIII. Staff shortages are certainly a major factor. But we also attribute this stabilization in the number of inpatients treated—after years of increase—to the VA's success in shifting care to non-inpatient care modalities, which are more economical. The key to providing the most health care for the limited dollars available in this era of constrained budgets lies in increasing reliance on non-inpatient care; therefore we do not recommend any increase in the inpatient hospital workload.

Expand outpatient care to 21.4 million visits, funded with $90 million. Recent data provide evidence of the VA's success in shifting the balance in the care it provides more toward outpatient care, which is less expensive than inpatient care. Chart IX shows that the outpatient visit rate increased for almost all age groups between FY 1986 and FY 1987. While inpatient care workload ceased growing in FY 1987, Chart X shows that the growth in "staff" (i.e., VA-provided) outpatient medical visits was approximately 1.4 million visits in FY 1987, or seven percent, twice the growth rate seen in previous years and far in excess of what the VA had initially planned for FY 1987.

Based on the rapid growth achieved last year, and in support of a still further shift to the less costly outpatient care modalities, we recommend the VA plan to provide 21.4 million outpatient medical visits[6] in FY 1989. We have recommended $90 million for the increase. (About seven percent of the increase will be funded and staffed by facility activations. As well, a small part of the increase is provided through the expansion of non-institutional geriatric and extended care programs, and will be funded by the recommended increase in those programs that is discussed above.)

Provide outpatient care entitlement for all Category A veterans at no net cost. As noted above (in the section on the challenge presented by unmet need), the VA's current restriction on outpatient care leads to poor care and quite possibly is costly. The VA health care system has always been distinguished for offering patients a comprehensive, coordinated continuum of care. The veterans' service organizations have previously expressed their regret that PL 99-272 did not endorse that concept in the course of realigning entitlement for Category A veterans. Unrestricted outpatient care for all Category A patients would not only make for better quality of care, simplify administrative management, encourage preventive care, and reduce the incidence of acute complications, but would also—in the last analysis—better serve cost containment. Indeed, a Congressional Budget Office estimate (prepared in connection with bills that eventually led to PL 99-272) was that there would be no net cost of providing entitlement to outpatient care for Category A veterans because reductions in inpatient care would offset the increase in outpatient care that would result.

We urge the Congress to expand outpatient care entitlement to all Category A veterans based on the same rules of access to care as apply to inpatient care. A legislative proposal to this effect is being separately submitted.

Develop an organized human resources plan to combat staffing shortages. We note with satisfaction that legislation is proposed in the Congress to provide

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[5] Patients treated, the VA's workload measure for inpatient care, equals the number of patients discharged during the year plus the number who are in hospitals at the end of the year.

[6] These figures on outpatient visits include same-day dialysis treatments, which the VA had previously counted as inpatient episodes.

Chart IX
VA Staff Outpatient Visit Rates
By Age Group
FY 1986 - 1987

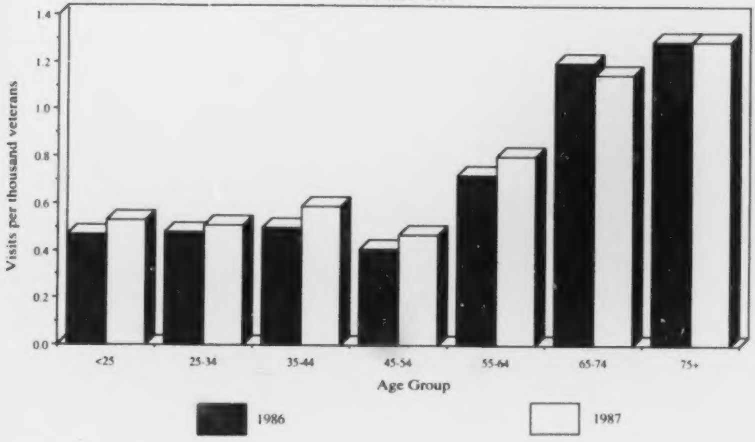
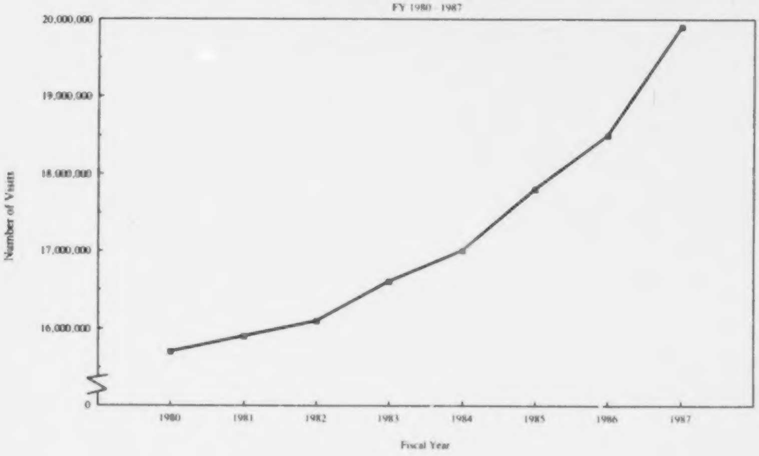


Chart X
VA Staff Outpatient Visits
FY 1980 - 1987



the VA with incentives to assist in recruiting and retaining qualified nurses and other scarce health professionals. The shortage of such personnel has reached critical proportions. In many VA hospitals, a sizeable percentage of beds is closed for want of staff.

A hospital labor shortage is now recognized as one of the most pressing issues facing the nation's health care system. It is not confined to the nursing profession or to particular locales The whole field of rehabilitation is faced with a short supply of personnel, including physical therapists, occupational therapists, and speech and hearing therapists.

Recruitment competition is intensive, with hospitals in the private medical sector making desperate efforts to boost salaries and offer innovative compensation. In addition, hospitals are offering child day care centers, payment of the cost of moving, and payment for continuing education and for organizational membership dues and license fees.

The hospital labor shortage is not a transient phenomenon. The federal government has recently predicted a national shortage of 1.2 million registered nurses by the year 2000. The VA would be well advised to develop and implement a human resources plan for

TABLE XIV
INPATIENT PSYCHIATRY

Fiscal Year	*Total FTEE Inpatient Psychiatric Bed Sections	Episodes of Inpatient Treatment	Number of Unique Patients Treated
1983	21,198.7	177,575	115,313
1984	20,999.0	177,075	115,175
1985	19,102.5	183,667	120,020
1986	19,102.5	196,009	**
CHANGE FROM FY 1983 TO 1986	minus 2096.2 (minus 10%)	plus 18,434 (plus 10%)	plus 4707** (plus 4%)**

*FTEE appearing in all Tables are Direct Care staff only excluding outreach staff.
**FY 1986 data not yet available; change is 1983 to 1985.

these employees to create the kind of environment that recognizes their professional contributions, provides for professional growth, and accommodates their personal needs. In this category of accommodating personal needs, the provision of child care centers, transportation and parking arrangements, shift differentials, and part-time employment options are particularly meaningful.

The staffing shortage demands more than crisis attention applied intermittently. To remain competitive, the VA must develop an organized, systematic human resources plan throughout its health care system that incorporates all available employment incentives.

Stem the erosion of psychiatry resources by instituting a floor at the FY 1987 resource level. When, several years ago, a DRG-based resource allocation methodology (RAM) was first implemented in the Veterans Administration health care system, misgivings were voiced that the cost of psychiatric care could not be accurately estimated by diagnostic categories alone. The counter argument prevailed, however, and it was decided that psychiatric inpatient care would be considered acute care for DRG purposes. This decision was counter to that later made by the Health Care Financing Administration (HCFA). Under the Medicare program, psychiatric hospitals and distinct psychiatric units of general hospitals are not currently subject to DRG reimbursement. Experience has shown that DRGs for mental illness consistently perform poorly in predicting patient length-of-stay or resources needed for an episode of inpatient care. The same problem shows up in the fact that a psychiatrist, on the basis of an admitting diagnosis only, cannot predict with accuracy the duration or severity of any given episode of mental illness. Nonetheless, the VA has applied the DRG-based RAM to all psychiatric admissions, a procedure leading to inappropriate resource allocation.

Another negative consequence of using DRGs for all psychiatric admissions is the failure of DRGs to recognize the distinction between chronic and acute psychiatric illness. The former should be funded on a per-diem basis, and the VA's DRG system does not recognize this. An alternate methodology with an accurate identification of costs should be developed and applied, as was done for non-psychiatric long-term patients.

Partly as a result of the use of these inappropriate resource allocation methodologies, VA psychiatric services have suffered an annual erosion of their resource base. This is a matter of grave concern. There is and has always been a substantial unmet demand for VA psychiatric care, especially among elderly patients. Moreover, outreach programs to homeless veterans have shown a large unmet need for care of serious mental health problems. Mental health care is less well insured in the United States than health care generally, which makes VA psychiatric care particularly vital. Erosion of psychiatric resources only serves to increase the unmet need for VA psychiatric care.

This erosion has not been limited to that resulting from the DRG-based RAM. Local hospital managers have the authority to shift dollars and staff internally to help meet care demands. They not infrequently do so, according a higher priority to high-tech, high-cost, and high-prestige acute surgical and medical care. This perspective is consistent with a bias common throughout the nation's health care system, where low-tech, low-visibility, low-prestige, and lower cost psychiatric services often suffer.

Aside from the anecdotal reports we have received concerning these local cost shifts, Table XIV shows that there have been significant reductions in direct staff (a loss of almost 2,100 FTEE or 10 percent) for psychiatric bed sections since FY 1983, while the episodes of treatment have increased by about ten percent. Dollar support has also eroded, with a loss of some $40 million in inpatient direct care dollars since 1984 according to recently reported VA data. To prevent further resource shifts away from psychiatric services, the VSO authors of this Independent Budget urge that Congress mandate a floor for resources allocated to VA psychiatric programs. The floor should be set at the level of the FY 1987 funding allocation to psychiatry, and include funding for both inpatient and outpatient programs. Each year, the floor should then increase to keep pace with payroll-related cost increases and inflation. This is not meant to imply that the FY 1987 funding level was appropriate or adequate, but that the erosion should certainly go no further. Adjustments should then be made to adequately fund a strong psychiatric care program.

AIDS: Provide an additional $50 million to help support the expensive and increasing workload. The impact of the AIDS epidemic on the VA health care system is already quite significant. All indications are that it will become more critical in the near future. Between 1981 and 1986, the VA cared for seven percent of the national total of 40,000 cases of AIDS. As of last December, the cumulative total of cases having been treated by the VA was 3,400. New admissions to VA care are now averaging 200 per month. The VA reports 1987 costs for treating AIDS patients vary from $18,000 to $24,000 per patient per year, with an additional $8,000 expense per patient per year for those on AZT therapy. Currently, the VA has 1,200 AIDS and AIDS- Related Complex (ARC) patients on AZT medication. These figures compare favorably to the private medical sector costs as reported by the Institute of Medicine (IOM), which are $50,000 to $150,000 per patient throughout the time span from diagnosis to death. Longevity figures vary. In a recent study of some 5,000 cases, 48 percent died within one year of diagnosis and 70 percent did not survive two years, although 15 percent survived five years.

There is a wide variation in predictions of future AIDS costs. The U.S. Public Health Service estimates that there will be a cumulative total of 323,000 cases or more in the United States by 1991. Of this number, 200,000 will have died and 14,000 AIDS patients will be occupying hospital beds at any given time. Based on these figures, and assuming the VA's current workload of about seven percent of the national total continues to hold, the VA is likely to be responsible in 1991 for over 8,000 AIDS patients. It is expected that treatment then will be essentially the same as today, and that a vaccine will not have been developed by then.

On this basis, and in light of the 200 new cases being treated each month, the VA's stated expectation of treating 1,900 AIDS patients during FY 1988 seems an underestimate. However, using that figure as a baseline, we feel that a conservative estimate of the VA FY 1989 AIDS caseload would be something over 3,000. (These figures do not include patients with AIDS-related complex, ARC). The VA Department of Medicine and Surgery has embarked upon realistic planning to meet the AIDS epidemic. Four VA centers for the specialized treatment of AIDS are in the process of being established, along with three new laboratories for AIDS research. A $7.1 million investment in AIDS research is planned for 1988.

We wish to underscore the need to provide additional funds to meet the high cost of the AIDS epidemic. Previous VA projections of workload have not included the AIDS epidemic; additional funds are neccesary to cover the patients it generates. The very substantial extra VA expense for the treatment of AIDS should not be covered by previously planned medical care funding; that funding is needed merely to meet the growing workload generated by the aging of the veteran population.

We therefore recommend that $50 million be added to the Medical Care appropriation for FY 1989 for treatment of veterans with AIDS and ARC. This funding would include the establishment of additional VA AIDS centers.

The Veterans Service Organization authors of this Independent Budget wish to commend Dr. J. Roy Rowland and the sponsors of H.R. 2881 for their initiative in proposing a Congressionally chartered National Commission on Acquired Immune Deficiency Syndrome to study and establish national policy regarding this pandemic disease.

Beneficiary Travel

Restore $30 million of currently authorized reimbursement pending Congressional consideration of legislative proposals. The FY 1988 Independent Budget (IB) challenged the VA's recently imposed restrictions on reimbursement of veterans for the cost of their travel to and from a VA health care facility. We recommended that much of this reimbursement be restored, and that the funds for it appear in the budget as a separate item not coupled with the cost of interfacility transfer of patients. Thereby, these funds would be protected against diversion to use for interfacility transfer. We note with satisfaction that legislative proposals have since been offered in both the House (H.R. 2327) and the Senate (S. 1234 and S. 1464) to mandate reimbursement of beneficiary travel and specify the circumstances in which reimbursement is to be paid.

We are submitting separately a legislative proposal based on these bills and containing our specific proposals on beneficiary travel reimbursement. In the main, it calls for reimbursement for all Category A patients and for patients receiving compensation and pension examinations. A deductible is recommended of $5.00 per round trip with a monthly cap on the deductible of $20.00.

Based upon previous experience, the cost of currently authorized beneficiary travel coverage is estimated to be $30 million. (This amount is, of course, exclusive of any costs for interfacility transfer of patients.)

VA Hospital Bed Levels

Restraint is recommended in any further reduction in VA bed levels pending full understanding of currently unsteady VA health care trends, the magnitude of unmet medical need of entitled veterans, and the ultimate opportunities for facility conversions to alternate modalities of care. During the past few years, major shifts in patterns of health care have occurred in both the VA system and the private medical sector. A major force behind these changes has been the DRG-driven incentive to shorten inpatient stays. Other causative factors, however, are also at work. Chart XI shows the striking decline over the last several years in the overall length of a VA inpatient hospital stay. Although the number of VA inpatient episodes of care had been increasing until FY 1987 (see Chart VIII), the net consequence for the VA has been a lower average daily hospital census and lower occupancy rates, as Chart XII shows.

Based on these developments, it is inviting to consider closing "excess" beds. In our considered opinion, this is the wrong time to do so. Utilization data based on current operating circumstances may well be misleading. 1986 was attended by considerable turmoil in the VA health care system and stabilization has yet to occur. The sudden emergence of a crisis shortage of hospital beds in New York City—for reasons not readily identified—dramatically demonstrates that in a period of turmoil, empty beds cannot be relied upon to remain empty.

In the VA health care system, the shortage of nurses and other health care professionals, denial of beneficiary travel reimbursement, dollar shortages from budget austerity, avoidance of expensive elective surgical procedures, and restrained access to outpatient care are all influences that generate empty beds in the face of needs and illnesses that would fill more beds if these influences were not operative.

There is another important factor to consider: the VA's major role in the National Disaster Medical System (NDMS). The NDMS is designed to provide emergency preparedness on a national scale. It is to handle casualties numbering tens of thousands when a cataclysmic domestic disaster (e.g., an earthquake) has saturated local and state resources. In the event of a conventional military conflict, with large numbers of casualties arriving back in the United States, the NDMS would be an essential on-line contingency backup resource for the Department of Defense.

The NDMS is an organized national network of voluntary, pre-committed federal and private sector hospital beds; a medical response component, including pre-organized, trained, and equipped Disaster Medical Assistant Teams (DMATS); and a transportation system for moving assistance into an affected area and for evacuating victims to an area where immediate, definitive care is available. The VA as a critical component of NDMS is committed to provide as many as 20,000 beds and supportive personnel on short notice.

Rather than permitting a reduction of authorized beds, remedial attention should be given to problems described above and selective conversion of hospital beds to nursing home care should be placed on a faster track. Most importantly, an expertly conducted survey to accurately identify and measure the unmet demand from entitled veterans for health care is needed before valid planning can be done.

Unmet Needs Survey

Identify fully the unmet medical care needs of entitled veterans. We are genuinely concerned about all Category A veterans whose need for medical care is for one reason or another not being met. These veterans fall into three categories: first, the veterans who need outpatient care but, under current rules, are only eligible for inpatient care; second, the group of homeless or otherwise deprived veterans who can only be identified and served through outreach programs; and, third, veterans with unmet medical need who are unaware of their VA entitlement or who, because of previous discouragement, no longer seek VA care.

An example of the first group is a severe diabetic or a hypertensive patient who has been stabilized, but requires continuous monitoring.

Glaring examples of the second group are being encountered in the recently created national program of community-based treatment for Homeless Chronically Mentally Ill (HCMI) veterans. Forty-three VA Medical Centers are now actively involved in this program, which consists of an outreach and care management component, medical and psychiatric evaluation, and contract care for psychiatric residential treatment. Over six thousand homeless veterans were contacted during the last six months of FY 1987 and over 20,000 are projected to be contacted in FY 1988, with 2,433 admissions expected.

The initial six thousand veterans seen by this program were found in soup kitchens, abandoned buildings, streets, and shelters. They have an exceptionally high prevalence of both psychiatric and medical illnesses, even for a homeless population. They are poor, socially isolated, and mostly unemployed. Of the initial six thousand contacts, 30 percent served in combat and 1.7 percent were ex-POW's. Of those who received a formal psychiatric assessment, 9.4 percent were diagnosed as having combat-related post-traumatic stress disorder.

It is conservatively estimated that veterans constitute half of all homeless Americans, and that there are hundreds of thousands of homeless veterans. These data

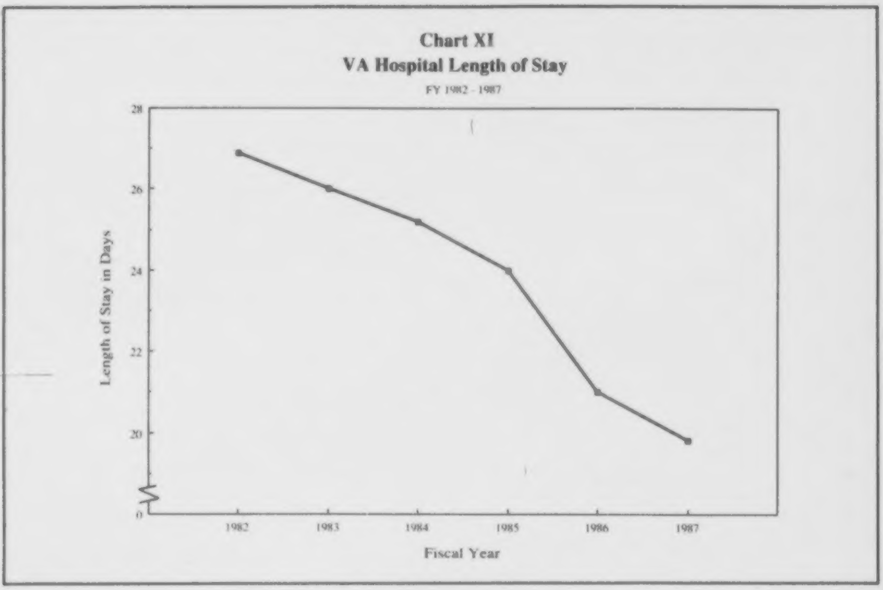


Chart XI
VA Hospital Length of Stay
FY 1982 - 1987

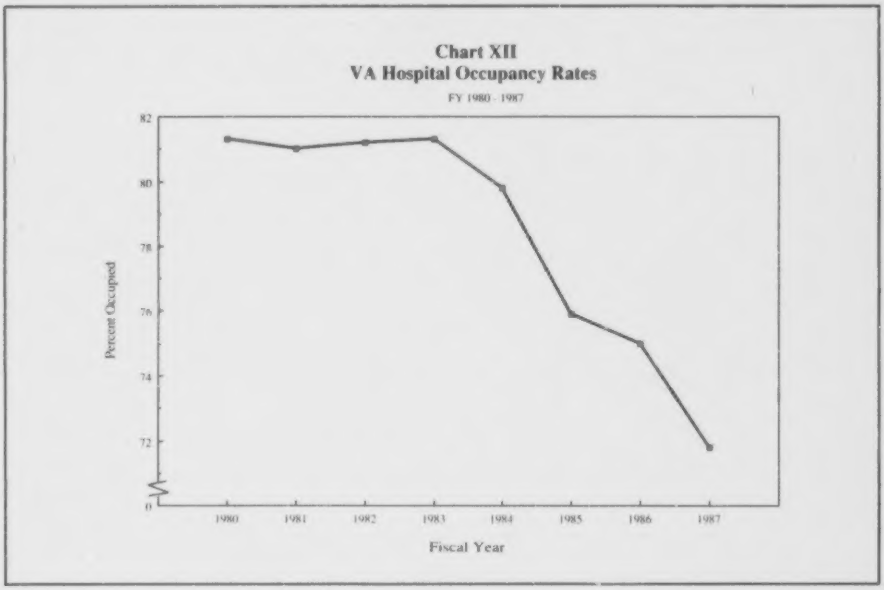


Chart XII
VA Hospital Occupancy Rates
FY 1980 - 1987

were extracted from the HCMI Program Report of October 1987. We present them to illustrate the critical need for medical and socio-economic assistance on the part of a veteran group that would not otherwise be identified in even the most intensive demographic survey, since surveys are based on people's residences or telephone numbers, and these veterans are homeless.

If the Means Test Report is properly modified, as suggested in our last year's Independent Budget and recently recommended by the VA Inspector General (IG), data on the first category of veterans with unmet need—those needing outpatient care but turned away because they are only eligible for inpatient care—should become available. It now appears that planned VA actions, modifying AMIS segments 320-323 will, if carried out, provide this information in FY 1989. The second veteran group with unmet need—the homeless—will, over a period of time, be identified if VA outreach programs for homeless veterans are given permanence and priority. Valid data on the third group with unmet need—those unaware of their entitlement or discouraged from using the VA—can be captured only by a well designed and carefully conducted survey.

We have reason to believe that there are large numbers of veterans in this third group, veterans who have abandoned or have been abandoned by the medical care system that was designed to care for them. Although there are (and have been) many sound surveys to acquire good data about veterans and their needs, none pursue the information we think to be essential. We reviewed the Survey of Veterans (SOV) III and find that there is not sufficient attention given to probing for information about health, health care, and veterans' health care needs. The proposed SOV III follow-on surveys by the VA concerning service-disabled veterans and medical care users do not focus on the full population of concern to the VSO's—they omit veterans outside the VA health care system who are not service-disabled. Other possible data collection mechanisms, such as over-sampling and in-depth questioning through the National Medical Expenditures Survey (conducted by the National Center for Health Services Research, DHHS), have not been fully exploited by the VA. We suspect that one reason survey information on unmet health care need is not available is that federal surveys must be cleared by OMB, and the pursuit of information on unmet need might show needs that would not support OMB's budget reduction goals.

We recommend that a survey be designed and administered to a national sample of veterans for the purpose of identifying their health status, their health care needs, the sources through which these needs are met, their unmet health care needs, and the potential the VA offers for meeting these unmet needs. The survey should be exempt from OMB clearance in order to avoid OMB censorship, and should be designed, carried out, and reported upon within two years. Survey reports would then provide an important basis for ascertaining the future direction and focus of the medical care programs of the Veterans Administration.

Decentralized Hospital Computer Program

Provide $22 million for FY 1989. There is a need for $22 million for 1989 as part of the full implementation of the Decentralized Hospital Computer Program (DHCP) initiative. Those parts of the DHCP initiative that support DVB should be included among the highest priority system components for speedy completion. The lack of integration of EDP systems of the VA's departments is a major cause of serious deficiencies in services rendered to veterans.

Postgraduate and Inservice Training

Double fund to $18 million in FY 1989. The elimination of the postgraduate and inservice training (P.I.T.) account by transfer to unspecified medical care funding was, in the VSOs' opinion, a serious mistake. In effect, the identity of $9 million for the continuing education of VA professional personnel was lost by this transfer.

Ten years ago, the P.I.T fund was $12 million. Budget cuts and inflation have since reduced its real purchasing power to a fraction of that amount. Meanwhile, the need for continuing education in an era of rapid advance in medical technology and therapeutics has never been greater. The health care professions have increasingly recognized this need and have increasingly mandated continuing education for their members, while the VA has been forced to reduce P.I.T. funding. Moreover, availability of such funds is increasingly important for recruiting and retaining health care professionals, as noted in the discussion of staffing shortages.

This Independent Budget recommends a total of $18 million dollars be appropriated for this very essential training. In addition, we recommend these funds be kept separately and be available only for their designated purpose, rather than being commingled with the totality of medical care funds. Total funding of $18 million requires the increase of $9 million shown in Table XI.

Education and Training

Add $11 million for traineeships in areas of critical staffing shortage. The VA's education and training programs are a major factor in maintaining high quality patient care and a major training component for the nation's health professionals. In conjunction with its affiliated health professions schools, the VA constitutes the nation's single largest resource for the training of health care professionals. In any given year, approximately 40 percent of all graduate physicians in training receive a major portion of their training in VA hospitals—along with 50 thousand students in other health professions—dentists, nurses, psychologists, technicians, administrators, etc. The great majority of the health care professionals trained in the VA go into the private sector rather than being retained by the VA to meet its needs.

We recommend an increase of 200 FTEE and $11 million for medical and dental residency positions, fellowships for physicians in rehabilitation, and various nursing and allied health traineeships. The medical residencies will be in fields of severe shortage such as anesthesiology, psychiatry, and rehabilitation medicine. In the short term, adding residents in these fields will provide assistance to current staff and also enhance recruitment and retention of staff by offering the attraction of working in an environment that includes an educational program. Over the longer term, staffing in these problem areas should improve further, for graduates of the VA training programs should be more rapidly recruited to serve in the VA than are other professionals in these fields.

We do not anticipate that the extra physician training positions would add to the national physician surplus that is widely predicted. Over 90 percent of VA residencies are affiliated with medical schools, and we expect training programs will merely shift training slots to the VA from other affiliated hospitals. Financial pressures on these affiliated, non-VA hospitals from Medicare and private payers make it unlikely that training programs would expand rather than provide the non-VA hospitals some relief from these pressures by shifting slots to VA hospitals.

Contract Hospital Payment Reform

Reduce costs by $20 million by payment at Medicare DRG rates. The VA will henceforth pay for inpatient care in non-VA hospitals on the basis of the Medicare Prospective Payment System (PPS). The essence of this system, like the VA's resource allocation methodology, is a fixed, per-use payment that is based on which diagnosis-related group (DRG) a patient falls into. The savings in cost of non-VA hospital care that will result primarily from this reform in payment methods are expected to total $20 million in FY 1989.

MEDICAL AND PROSTHETIC RESEARCH

The appropriation for Medical and Prosthetic Research supports the three categories of VA health research: medical research, rehabilitation research, and health services research.

Medical research is centered on problems of particular importance among veterans or VA patients, and most VA researchers are VA clinicians. Thus, the VA's medical research has a clinical orientation and a high relevance to VA patient needs. Rehabilitation research might be regarded as a specific example of this thrust of VA research to meet needs especially important to veterans. Rehabilitation research is directed at the needs of functionally impaired veterans; it attempts to bring engineering and computer technologies, among others, to bear in developing new devices and techniques for overcoming these veterans' impairments and for maximizing their functional abilities and independence. Health services research is directed at improving the effectiveness and efficiency of the VA health care delivery system.

Research plays an important role in the VA health care system. It leads to treatment advances for health problems that are specific to the veteran population or are particularly prevalent among VA patients. In addition, the VA's ability to coordinate clinical research on a broad range of patients at multiple sites is extremely valuable in evaluating new treatment approaches for U.S. health care in general. Finally, opportunities to carry out research bring to the VA top-flight physicians and other health care professionals who would otherwise be difficult to attract.

The story of VA research constitutes one of the proudest chapters in the history of the Veterans Administration. The value of contributions to medical knowledge by VA researchers far exceeds the cost of research, not only in terms of dollars but also in terms of lives saved or made easier. A short list of VA research achievements includes the antibiotic cure for tuberculosis; the palliative effectiveness of drug therapy for schizophrenia; the modern treatment for hypertension; the first cardiac pacemaker and the invention of the nuclear-powered pacemaker; the laser cane and the robotic limb; the discovery of cancer-causing viruses; the liver transplant; the technique of radioimmunoassay; and the basic theoretical concept that made possible the development of computerized tomography. Like VA education programs, the unique clinician/investigator-based VA research effort is a national resource. Among its current priorities are the problems and processes of aging.

THE CHALLENGE

Health care is a rapidly changing field and we note with concern the fact that only two percent of the VA's health care budget goes to research while, in high tech, rapidly changing industries, the percentage typically is much higher. We are concerned that the relatively low percentage of funds going to research will have a negative effect on the quality of VA care and the extent to which its practitioners remain up-to-date.

Economizing is particularly "penny-wise and pound foolish" in fields in which the VA's research focuses most strongly on veterans' special needs and on methods for improving the VA's health care system. Rehabilitation research and health services research most clearly fall into this category. Rehabilitation research that the VA forgoes out of economy is unlikely to be carried out elsewhere, and thus restrictive funding of rehabilitation research will work to the disadvantage of the relatively large number of veterans with disabilities, many of them with service connected disabilities. VA spending on health services research is about one-tenth of one percent of total VA health care spending. This seems to us a terribly meager amount for research directed at improving the effectiveness, efficiency, and organization of VA health care, especially when budgets are tight, making inefficiency, poor organization, etc. least tolerable.

We are also concerned about the damage generated by recent up-and-down fluctuations in the level of research support. Most research projects require multiple years for completion and are funded with commitments for three years or longer; high performing research teams need stability. Erratic funding thus impairs research to a greater extent than might be thought from a simple examination of the percentage level of fluctuations. This sensitivity to fluctuations is particularly severe in areas, such as rehabilitation research, in which the VA plays a large role. There is no large pool of researchers outside the VA from which the VA can draw at times of rapid expansion or that can absorb researchers at times of cut backs.

OUR POLICY

We realize this is a period of extreme budget stringency for the federal government, and in that budget climate feel that priority for expansion must go to hands-on health care, given the expanding needs for care as veterans age. For these reasons, we propose only maintaining current services—that is, keeping up the level of research activity that the VA carried on in FY 1987.

SPECIFIC RECOMMENDATIONS

Provide supplemental funds of $10.6 million in FY 1988 and an additional $5.7 million in FY 1989 to maintain current services. As Table XV shows, the enacted appropriation for VA health research for FY 1987 is $193 million, not including funds appropriated to the Department of Defense (DOD) research budget, but transferred to the VA research budget. As also shown in Table XV, this appropriation is far short of the current services level and an additional $10.6 million in supplemental appropriations for FY 1988 is needed to maintain current services—i.e., to provide the same level of research staffing and other resources as in FY 1987. With an appropriation of $203.6 million, the VA research staff can be maintained at approximately 4,300 FTEE, the same number as in FY 1987. Otherwise, cuts will be necessary; we cannot overstate the particularly destructive effect of up-and-down fluctuations in research funding.

To perform research at the same level of activity in FY 1989 will require $5.7 million more, or a total of $209.3 million. In other words, $209.3 million is the FY 1989 current services level. Of the $5.7 million increase between FY 1988 and FY 1989 in the current services level, approximately $3.5 million is required for payroll-related items, principally the pay raise effective January 1, 1989. The remaining $2.2 million is needed to cover estimated inflation for non-payroll items. This $209.3 current services level is the level of VA-funded research that, regretfully, we feel is the maximum appropriation we can recommend for FY 1989.

If the expected transfer of $10 million from DOD to VA research does not take place in FY 1989, it will be essential that this additional amount be appropriated to maintain current services, for similar amounts have been available from DOD in FY 1987 and FY 1988.

TABLE XV
MEDICAL AND PROSTHETIC RESEARCH
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION*	193,000
FY 1988	Supplemental Funds Pay Raise	1,900
	Federal Empl. Health Benefits	700
FY 1988	Add-on to Restore Current Services	8,000
FY 1988	Current Services Level*§	203,600
FY 1989	Payroll-related Increases Federal Empl. Retirement Sys.	800
	Annualization of Pay Raise-1988	600
	Annualization of FEHB-1988	200
	Pay raise - 1989	1,900
	Inflation	2,200
FY 1989	Current Services Level*§	209,300
FY 1989	RECOMMENDED APPROPRIATION*	209,300

*Obligation level would include an estimated $8,200 in reimbursements

§Funds necessary to maintain services at the FY 1987 level

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

The Medical Administration and Miscellaneous Operating Expenses (MAMOE) appropriation supports the Washington, D.C. Central Office staff of the VA health care system as well as a health professions scholarship program for students in nursing and certain other health professions.

THE CHALLENGE

Personnel cuts in MAMOE have reduced DM&S's Central Office staffing by almost one-third relative to levels of four years ago. Last year, we expressed our concern at this large decrement and its detrimental effect upon the capability of Central Office to maintain efficiency in the operation of the VA health care system. We doubt that some 600 employees are adequate to staff the headquarters of an organization that spends over $10 billion a year, has some 200,000 employees, delivers a complex and vital service at over 200 major delivery sites—and also must devote a substantial fraction of its headquarters staff to responding to Congressional inquiries and Executive Branch direction. The need for adequate management staff is particularly acute in the current era of tight budgets when waste and inefficiency due to inadequate management supervision are especially important to avoid.

OUR POLICY

Nonetheless, DM&S's Central Office has managed to function at the current staff level, and given the economies in federal government spending necessary to meet current deficit reduction targets—economies in which the VA must share—we reluctantly recommend continuation of this current staffing level.

We applaud the restoration of funding for the health professions scholarship program that was achieved in the FY 1988 appropriation, and look forward to continuation of this program as a significant asset in dealing with staffing shortage problems. These are widespread and clearly long-term problems.

SPECIFIC RECOMMENDATIONS

Provide supplemental funds of $0.5 million in FY 1988 and an additional $1.4 million in FY 1989 to maintain current services. As Table XVI shows, the enacted appropriation for Medical Administration and Miscellaneous Operating Expenses (MAMOE) for FY 1988 is $47 million. However, to maintain the FY 1988 staffing at the FY 1987 level will require supplemental appropriations of approximately $0.5 million, mostly to cover the federal employees' pay increase that went into effect on January 1, 1988. Thus, the FY 1988 current services level is $47.5 million. Given the reduced staff level in the Central Office, it is particularly important to fully fund the $0.5 million increase that is needed to maintain services at the FY 1987 level.

For FY 1989, the current services level is $48.9 million (see Table XVI). Additions of $0.7 million over the FY 1988 level are required in FY 1989 for payroll-related items, primarily for the pay increase effective January 1, 1989, and $0.7 million is required to cover inflation in non-personnel costs. Again, fully funding these cost increases is particularly urgent to forestall cuts in an already depleted Central Office staff. In total, then, we recommend funding the current services level of $48.9 million for MAMOE in FY 1989.

TABLE XVI
MEDICAL ADMINISTRATION AND
MISCELLANEOUS OPERATING EXPENSES
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION	47,000
FY 1988	Supplemental Funds	
	Pay Raise	400
	Federal Employee Health Benefits	100
FY 1988	CURRENT SERVICES LEVEL‡	47,500
FY 1989	Payroll-related Increases	
	Federal Employees Retirement System	100
	Annualization of Pay Raise - 1988	100
	Annualization of FEHB - 1988	40
	Pay raise - 1989	500
	Inflation	700
FY 1989	CURRENT SERVICES LEVEL‡	48,940
FY 1989	IB RECOMMENDED APPROPRIATION	48,940

‡Funds necessary to maintain services at the FY 1987 level

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

This appropriation provides grants to assist states in acquiring or constructing state homes that furnish domiciliary and nursing home care to veterans. It also provides grants that assist in the expansion, remodeling, or alteration of existing facilities of this type, including hospital facilities of state homes. Grants may not exceed 65 percent of the total cost of a project.

As described in the discussion of our extended care initiative (in the section on the Medical Care appropriation, above), expansion of state homes is one important potential source of the rapidly increasing nursing home capacity the VA needs. However, the willingness of states to expand state homes or build new ones is limited, since states must pay most of the cost of caring for veterans in these homes. In recent years, states have been willing to undertake less expansion of this capacity than the VA would have liked.

For FY 1989, we recommend an appropriation of $42.4 million for these grants, which is the current services level—that is, the same as the appropriation for FY 1987. We expect this will fund a substantial expansion in the state home program. Based on preliminary information from states, there should be no problem in the full $42.4 million being put to use in this program in FY 1989.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

These grants assist in the replacement and upgrading of equipment at the Veterans Memorial Medical Center in the Philippines and in rehabilitating the physical plant and facilities of the Center. The Center provides care to U.S. veterans. It is now over 30 years old, so replacement and rehabilitation are major needs. We recommend the usual annual grant of $500,000.

CONSTRUCTION PROGRAMS

CONSTRUCTION PROGRAMS SUMMARY

Two appropriations fund most of the VA's construction activities: Major Construction provides funds for projects with costs over $2 million; Minor Construction pays for smaller projects and also for the staff involved in planning and supervising construction activities. In addition, a small third appropriation funds the Parking Garage Revolving Fund. The vast bulk of funds in the construction appropriations go for health care projects.

SPECIFIC RECOMMENDATIONS

Our primary recommendations for construction programs follow.

- A high appropriation level, $169 million, for minor construction because of the importance of updating and repairing VA facilities, most of which are far from new.

- A low appropriation level of $368 million for major construction, because the VA does not have an adequate system for basing construction projects on its needs.

- Prompt development of an adequate system for basing construction projects on VA programmatic needs.

- New policies for the National Cemetery System of (1) a national cemetery with available burial space in every state and (2) such cemeteries within reasonable distance of major veteran population centers; $3 million to fund acquisition of land for cemeteries to be added under these criteria.

- $40 million for the advance planning and design funds.

- $30 million for four new 120-bed VA nursing homes each year. $20 million a year earmarked for conversion of VA hospital beds to nursing home beds.

Table XVII, "Construction Programs" summarizes our recommendations for construction appropriations.

PRINCIPLES AND GUIDELINES

Our recommendations for construction programs are based on a carefully developed set of 12 principles and guidelines, which follow:

1. Construction funding should ensure the integrity of the VA physical plant for future generations of veterans. There must be no covert downsizing achieved by allowing the physical plant to deteriorate.

2. Veterans Administration facilities must be available where veterans need them. This may require major expansions or new facilities in areas of rapid population growth. Conversely, contraction of facilities in areas of declining need is appropriate.

3. Highest priority in construction projects should be given to those necessary to meet modern safety standards. These include protection against earthquakes, removal of asbestos hazards, and correction of fire safety deficiencies.

4. VA facilities must be brought up to current privacy standards.

5. The VA physical plant must be adequate to meet the needs of a rapidly aging veteran population. Specifically, the VA health care system must have enough treatment capacity to meet these needs and must adapt existing space and its configuration of services to the changing pattern of care needed as veterans age. This implies large-scale conversion of unused hospital beds to nursing home use and to other alternative uses to support the medical care mission.

6. Selection of construction projects should be based on an adequate system-wide process for setting priorities. The process for establishing priorities should consider the full range of Veterans Administration needs, not merely those projects that have moved a substantial way through the current planning process.

7. The VA should improve the cost efficiency of its design criteria and construction process, recognizing that excess dollars spent on a construction project are dollars not available for other purposes.

8. Maintenance and, where needed, new construction funding should be carried out as necessary to permit the Veterans Administration to effectively take advantage of current and future progress in medical technology.

9. As one basis for construction planning, the VA must promptly develop an inventory of current space, and of functional and technical deficiencies, including information on the severity of deficiencies. The absence of this information is an omission of staggering proportions.

10. Sufficient funds must be made available in the advance planning and design funds to prevent delays in the construction needed to carry out VA goals.

11. The VA should use techniques that will speed up the construction process, reducing the time from the initial planning of projects to their completion.

12. There should be a national cemetery with available grave space in every state and national cemeteries with available grave space located within reasonable distance of major population centers. In meeting these goals, priority should be given to the largest population concentrations in the states with no open cemetery.

TABLE XVII
CONSTRUCTION PROGRAMS APPROPRIATIONS
(dollars in thousands)

CONSTRUCTION CATEGORY	1987 Appropriation	1988 Appropriation	1989 IB Recommended Appropriation
MAJOR CONSTRUCTION			
Medical			295,000
Advance Planning And Design Fund			40,000
Nursing Homes			30,000
Cemeteries			3,000
TOTAL MAJOR	382,700	403,000	368,000
MINOR CONSTRUCTION			
Medical			100,000
General			[80000]
Conversions			[20000]
Regional Offices			5,000
National Cemetery Program			10,000
Staff Offices and Admin.			54,000
TOTAL MINOR	80,000	116,000	169,000
PARKING GARAGE REVOLVING FUND	26,000	3,900	4,000
TOTAL CONSTRUCTION APPROPRIATION	488,700	522,900	541,000

CONSTRUCTION

THE CHALLENGE

As in other VA programs, need forms the basis for determining the appropriate level of funding for construction. However, in this, our first attempt to develop a VA construction budget, we quickly found that the VA itself does not have the information required to formulate a needs-based construction budget. Such a budget for health care projects would require as its basis an inventory of construction needs composed of:

- Maintenance and repair needs of existing structures, systems (electricity, heating, plumbing, etc.), and equipment used by medical centers;

- Shortfalls in existing space, systems, and equipment needed for the current activities of medical centers; and

- Shortfalls in the space, systems, and equipment that will be required by future medical center operations, as these future operations are envisaged in approved MEDIPP plans.

The VA does not have such an inventory of construction needs, and the focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in this sense. As a consequence, the VA's current construction priority-setting is limited to choosing among projects submitted by medical centers (in the Five Year Facility Plans). These projects may or may not address the needs that the VA as a whole sees as having highest priority, and there is no way of knowing what the full scope of need looks like. To put it bluntly, the VA does little more than pick its projects from 172 uncoordinated "laundry lists." The current prioritization methodology simply places requested projects in priority order and does not address true need.

The absence of a sound basis for establishing construction priorities is but one of the major deficiencies in the VA construction process identified by careful studies that the VA itself commissioned. Other major deficiencies include:

- Excessive time required for projects—typically 10 years from conception to completion for major construction;

- Costs that are sometimes excessive; and

- Inability to deal systematically with problems in the construction process.

Appendix B, "Problems in the VA's Construction Process," describes the major findings of the studies and provides more details of these challenges.

OUR STRATEGY

Our most urgent construction concern, then, is for the VA to develop a construction process that works well, specifically one that:

- Completes projects more rapidly. Five years from conception to completion of major projects is a good, if challenging, target;

- Chooses projects based on need and on a sound system for setting priorities;

- Provides projects that meet medical centers' needs well;

- Is economical; and

- Catches problems quickly, before they become severe, through an effective system of standards and indicators for monitoring on-going performance along important dimensions such as quality, timeliness, and cost.

An immediate task for the agency in meeting these goals is to develop a sound Facility Development Planning Process (FDPP). The successful completion of the pilot test program for the FDPP, involving four VA medical centers, is a prerequisite to implementing this new process system-wide. Upon successful completion of the pilot test, the Congress should then be willing to release the $10 million it has appropriated for Facility Development Plans, but frozen because the VA has not shown the ability to carry out appropriately this first step in fixing its construction process. Once a proper Facility Development Planning Process has been established, the foundations necessary for developing a needs-based construction budget will be in place.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low total construction appropriations for FY 1989, appropriations totalling $541 million, as shown in Table XVII. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in FY 1987, and is only $18 million above the very tight appropriation total enacted for FY 1988. Within this constrained total, we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA facilities, most of which are now quite old.

We believe the true total of construction needs may be a good deal higher than the total appropriation of $541 million we are recommending. For example, the VA is contracting for only two replacement hospitals or top-to-bottom renovations of hospitals each year, which means it is on an absurdly long 86-year replacement cycle for its 172 hospitals. However, both the current federal budget deficit and the VA's lack of the basic information it needs for construction planning support our endorsement of the conservative appropriations shown in Table XVII.

Our construction budget also reflects the re-establishment of a reasonable strategy for locating cemeteries in the National Cemetery System. At OMB's insistence, the VA has for years maintained that the system need have no more than one national cemetery with available burial space in each of the 10 federal regions. This means extremely long travel distances for widows and children of veterans honored by burial in a national cemetery. Realistically, it deprives many veterans of an option of burial in a national cemetery.

The VSO authors of this budget are unanimous in agreeing that a true National Cemetery System that offers veterans what it appears to promise must meet two criteria:

1. It must have a national cemetery with available grave space in every state. (Eight states do not now have open national cemeteries.)

2. There must be a national cemetery with available grave space within reasonable distance of the nation's major veteran population centers.

This budget starts the process of making the National Cemetery System meet these two criteria.

SPECIFIC RECOMMENDATIONS

Our specific recommendations for construction programs are, as in other program areas, based on our strategy for meeting the challenges in this program area.

Major Construction

We recommend $368 million be appropriated for major construction in FY 1989, $35 million less than in FY 1988, and almost $220 million less than was obligated in FY 1987. We recommend this reduction in part because the VA lacks the information and processes to evaluate construction needs and in part because of general federal budget constraints.

Within the $368 million total, we recommend **$40 million for the advance planning fund and design fund** as shown in Table XVII. These funds permit projects to move continuously through the planning and design stages of the construction process rather than suffering lengthy interruptions while waiting for appropriations. As such, they deal with one of the major problems that has made VA projects take overly long to complete. The $40 million recommended for these funds substantially exceeds the amount allocated to them in past years. In funding them generously, we are seeking to accelerate the construction process. More importantly, we are ensuring a large dollar volume of projects "in the pipeline." Under-funding in this area leads to a choking off of projects by constricting the front-end planning and design stages. Our strategy of generous funding will permit a rapid expansion of the overall volume of major construction projects once VA priority-setting improves and the deficit declines.

We have specifically designated **$30 million for construction of new VA nursing homes.** This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate of addition of new VA nursing homes each year throughout the 1990s. (For a discussion of nursing home needs and our strategy for meeting them, see the chapter on the Medical Care appropriation, above.)

Finally, our recommendations for the major construction appropriation include **$3 million for the acquisition of land for a new national cemetery** in a state that currently has none. We recommend the addition of two new national cemeteries with available grave space each year until the National Cemetery System meets our two goals. We believe that one new cemetery each year can be obtained by donation from a state, and have budgeted for purchase of land for a second.

The remaining $295 million of the major construction appropriation should be devoted to other medical construction projects.

Minor Construction

We recommend $169 million for FY 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up-to-date. As shown in Table XVII, our recommendation of $169 million for this appropriation for FY 1989 is an increase of $53 million from the FY 1988 level. We recommend this increase because of the importance of updating and repairing VA facilities. The largest number of VA facilities date from the 1950s, which means they are at an age when needs for updating and for repair and replacement are high. Moreover, the recommended $169 million for FY 1989 is actually slightly below the obligation level achieved in FY 1987.

Most of the total minor construction appropriation — **$100 million** to be specific—should be spent on **medical construction.** Of these medical funds, we recommend that **$20 million be set aside for conversion of medical center space to nursing home use,** and be available only for this purpose. Our analysis of nursing home needs and how to meet them (see the chapter on the Medical Care appropriation) shows the need to convert approximately 1,000 VA hospital beds to nursing home use every year for the next several years. VA medical centers have been resistant to actually undertaking any conversions—including those that DM&S's own planning calls for. Setting aside $20 million a year for conversions will put an end to the claim that a lack of construction funds prevents conversion.

Modest amounts of the minor construction appropriation pay for construction projects in the VA's **regional offices** and its existing **national cemeteries.** Based on recent years' spending patterns, we estimate that **$5 million and $10 million, respectively,** are appropriate for these purposes. Finally, we recommend that **$54 million** of minor construction funds be spent **for the VA staff that oversees the construction process.** This consists primarily of the Office of Facilities, and we recommend continuation of the current staffing level.

Parking Garage Revolving Fund

We recommend $4 million for FY 1989. The Parking Garage Revolving Fund is a recently established appropriation. When the fund is fully on its feet, revenues from parking garages it has financed will pay for needed new parking facility projects, and no appropriations to the fund will be required. Currently, however, the fund is in a start-up mode and requires an appropriation because most projects it has financed are still under construction and not yet producing revenues. We recommend an appropriation of $4 million in FY 1989, the same as in FY 1988.

APPENDICES

APPENDIX A

MEASURING THE NEED FOR COMPENSATION, PENSION, AND EDUCATION (CP&E) STAFF IN THE DEPARTMENT OF VETERANS BENEFITS

Workload statistics compiled by CP&E are based primarily on end products (EPs) completed. There are 28 categories of end products; each category is reported separately. As a consequence, there is great potential for significant variations in workload mix. Since FY 1978, there has been a considerable change in the overall CP&E workload as reflected by total Compensation and Pension end products and total Education end products.

The following table depicts this change and the change in the number of overall CP&E positions.

TABLE A1—CP&E END PRODUCTS AND STAFFING

FISCAL YEAR	TOTAL C&P EPs	TOTAL EDUCATION EPs	TOTAL CP&E EPs	CP&E POSITIONS
FY 1978	3,619,540	3,580,046	7,199,586	5,746
FY 1979	4,790,727*	2,981,710	7,772,437	5,637
FY 1980	4,009,395	2,771,022	6,780,417	5,002
FY 1981	3,902,106	2,676,252	6,578,358	4,727
FY 1982	4,052,901	2,281,192	6,334,093	4,488
FY 1983	3,623,869	2,153,308	5,777,177	4,183
FY 1984	3,524,003	2,011,947	5,535,950	3,912
FY 1985	3,467,820	1,523,532	4,991,352	3,764
FY 1986	3,823,737	1,323,445	5,147,182	3,583

*FY 1979 is atypical in that there were 1,008,166 more income election *(150)* actions than in FY 1978 (1,531,467 vs. 523,301) due to legislation.

The table shows that between FY 1978 and 1986, total end products decreased 28.5 percent from 7,199,586 to 5,147,182 whereas there was a 37.6 percent decrease in positions. The table shows, however, that the workload reduction as expressed in total end products was entirely in the education area, a decrease of 63 percent or 2,256,601 EPs. During the same period, there was actually a slight increase in the overall C&P workload from 3,619,540 to 3,823,737.

The gross numbers, however, do not tell the entire story. The decline in the education workload does not have a directly proportionate effect on the number of positions/FTEEs needed to accomplish the work. This is because the typical end product in the education workload does not take as long to complete or require the effort as do the typical end products in the C&P workload. In this regard, DVB has developed a complex methodology for determining how many particular end products (in each category) should be completed by an employee in a year. The measurement used is called standard base weights. The base weights

TABLE A2—CP&E WEIGHTED WORKLOAD
FISCAL YEAR 1986

C&P

EP	BASE WEIGHT	X	END PRODUCTS	=	WEIGHTED WORKLOAD
110	1.74		90,887		158,144
180	1.53		53,671		82,117
140	1.47		28,575		42,005
190	0.99		66,192		65,530
160	0.79		468,406		370,041
150	0.77		304,656		234,585
120	1.58		457,073		722,175
130	0.81		431,574		349,575
050	0.32		662,465		211,989
310	0.72		94,345		67,928
210	0.80		50,921		40,737
155	0.77		608,739		468,729
170	1.90		79,211		150,501
290	0.71		174,642		123,996
500	0.97		53,220		51,623
680	1.18		17,925		21,151
690	0.46		71,576		32,925
215	0.57		55,757		31,781
295	0.81		53,902		43,861
TOTAL			3,823,737		3,269,193

EDUCATION

EP	BASE WEIGHT	X	END PRODUCTS	=	WEIGHTED WORKLOAD
200	0.75		129,214		96,910
210	0.50		1,015,983		507,991
220	0.72		87,208		62,790
230	0.61		56,436		34,426
240	0.71		8,099		5,750
250	1.37		4,542		6,223
260	1.03		295		304
270	1.75		2,034		3,559
280	0.70		19,634		13,744
TOTAL			1,323,445		731,697

reflect the number of employees needed to complete 1,000 end products, by particular categories, in a year. Thus, for example, the standard base weight for an original compensation claim is 1.74 and for an original education claim is 0.75. This means that it would take 1.74 employees to complete 1,000 original compensation claims in a year, but only .75 employee to complete 1,000 original education claims in a year. This is an extremely useful measurement tool. It permits an accurate assessment of the true percentage of C&P and Education activities in the overall CP&E workload and it takes into account the changing dynamics of the overall workload in terms of the resources necessary to accomplish the work in a timely and efficient manner. Moreover, the standard base weights incorporate productivity gains that have been achieved in the past.

Obviously, a declining (or increasing) education workload would not have the same impact as a declining C&P workload. To illustrate this, we took actual FY 1986 end products and applied standard base weights to them:

The average standard base weight for C&P end products was 0.855 (3,269,193 divided by 3,823,737) and for education end products it was 0.553 (731,697 divided by 1,323,445). Thus, although education end products represented 25.7 percent of the CP&E total (1,323,445 divided by 5,147,182), on a weighted basis, they represented only 18.3 percent of the total.

This relative disparity was no doubt greater in the past when the original compensation and pension workload (with its higher base weights) was greater. In FY 1978, for example, there were 131,225 original compensation claims and 97,331 original pension claims, whereas in FY 1986, the corresponding totals were 90,837 and 53,671. The average standard base weight for all C&P end products would therefore have been greater than now. Thus, although the overall CP&E workload declined by 28.5 percent between FY 1978 and FY 1986, there would not have been a corresponding lessening of the need for FTEEs to complete the overall workload at the same or similar level of service. Certainly a significant reduction in FTEEs was justified because of the decline in the education workload and the changing case mix within the C&P workload; however, because of the factors cited above, the VSOs believe it is clear that a 28.5 percent reduction was excessive, much less the 37.6 percent reduction that actually occurred.

To illustrate, using the FY 1986 average standard base weights (which fully incorporated productivity gains) the FY 1978 end products, the volume of work would have been accomplished by 5,075 employees.[1] Moreover, the major difference between FY 1978 and FY 1986 workloads is that there were 2,256,601 fewer education end products. Applying the current standard base weight of 0.553 to those cases results in a weighted workload of 1,247,900 or 1,248 employees that would have been necessary to complete the work. This means that the decline in the volume of the education workload would indicate a need for 1,248 fewer positions compared with FY 1978, using current measurement techniques. However, although there were 85,265 fewer original compensation and pension claims in FY 1986 than FY 1978, this is offset by the fact that in FY 1986, there were 204,197 more C&P end products than in FY 1978. Again, applying the current base weight of 0.855 to the increased number of C&P cases results in a weighted workload of 174,588 or 175 more employees needed to complete the volume of work. This means that the decline in the overall volume of work would justify 1,073 fewer positions (1,248 - 175) compared with FY 1978, using current measurement techniques throughout the analytical process. Based on the volume of work, CP&E positions in FY 1986 would have been 4,002 (5,075 - 1,073) instead of the actual 3,583, a difference of 419. Thus, by the most empirical method available, between FY 1978 and FY 1986, a CP&E staffing reduction of 18.7 percent would have been appropriated based on the volume of work (1,073 divided by 5,746), rather than the actual reduction of 37.6 percent.

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[1] FY 1978 C&P EPs were 3,619,540 and Education EPs were 3,580,046. 3,619,540 times .855 equals 3,094,707 or 3,095 employees completing 1,000 cases each; 3,580,046 times .553 equals 1,979,765 or 1,980 employees.

The foregoing analysis, however, accounts only for volume; it does not address timeliness. The timeliness factor is more difficult to quantify but it is at least as important as the number of end products produced. The current level of productivity is not sufficient to provide the same level of timely service as in 1978. It must therefore be assumed that even applying current levels of productivity to FY 1978, 5,075 employees would not have been an adequate number to provide timely service. How many employees would have been sufficient to provide timely service at current levels of productivity is, of course, speculative. The VSOs believe that one-third less of the reduction would have maintained timeliness, given current productivity standards. Thus, instead of 671 fewer employees (5,746 - 5,075), 443 (671 X .66) fewer could have accomplished the FY 1978 workload in a satisfactorily timely manner. Incorporating this timeliness factor into the analysis, the new baseline measure for adequate FTEEs becomes 5,303 employees in FY 1978. Therefore, FY 1986 FTEEs should have been 4,230 (5,303 - 1,073) instead of the actual 3,583, or 647 more employees than CP&E actually had.

The Independent Budget Proposal for FY 1989 is that budget authority be provided for 3,837 CP&E positions or 424 more positions. This is based on VSO's analysis that in FY 1986, CP&E should have had 4,230 positions. The workload estimates provided by CP&E indicate an anticipated workload of 3,303,139 C&P actions and 1,380,179 education actions. Applying the actual 1986 standard base weights of 0.855 and 0.553 to these respective actions, 445 fewer employees would process the C&P workload and 52 more employees would be needed to process the education workload for a net decrease of 393.[2] Subtracting this from the number of 1986 positions that would have been adequate to provide minimally satisfactory service, the FY 1989 staffing level for CP&E would be 3,837. (This does not include FTEEs resulting from overtime or cumulative part-time positions.)

The most pressing need for additional staff is in the authorization components and the VSO would expect the bulk of the new positions to be allocated there. Additional cost, then, for FY 1989 would be $10,233,000 for adjudication staff. This is, indeed, a modest cost for needed improvements in the timeliness and quality of service to veterans, especially when budget outlays for total benefits paid to veterans is decreasing.

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[2] *520,598 times .855 equals 445,111 or 445 fewer employees; 93,266 times .533 equals 51,576 or 52 more employees.*

APPENDIX B

PROBLEMS IN THE VA'S CONSTRUCTION PROCESS

In developing this first Independent Budget for the VA construction program, we started from the VA's current construction program practices. The major studies the VA commissioned to examine its current construction process showed multiple, serious problems. As documented primarily in the "Comprehensive Study of the VA's Organization and Procedures for constructing Health Care Facilities" (completed for the VA by Booz, Allen & Hamilton and RTKL Associates in April 1985), these problems include:

- Excessive time is required to complete construction projects;

- The users of the construction projects—the individual VA medical centers—find the completed projects don't meet their needs well;

- The choice of projects is not based on a sound system for setting priorities, and there are other inefficiencies as well; and

- The VA only deals with problems in the construction process when they become glaringly obvious in particular projects. Even then, it does not make the systematic changes to the process necessary to prevent future recurrences of the problems.

EXCESSIVE TIME

The Booz, Allen/RTKL study found that the VA routinely exceeded its scheduled time for projects by 25-50 percent, and that its schedules were somewhat longer than those of other organizations carrying out similar construction. On average, the VA was taking over 10 years from initial project development to completed construction. The study attributed this slow pace to several problems. Two notable problems were that essential information needed to begin project design was difficult to obtain and there was a lack of accountability for timely progress in the planning stage of construction projects.

The excessive time required for VA construction makes it less likely that the needs identified at the beginning of a project will still be accurate reflections of medical center needs when the project is completed. This problem often leads to major project changes during design or construction phases, which cause still further delays.

USER DISSATISFACTION

A second major problem was dissatisfaction among VA medical centers with completed construction projects. According to the Booz, Allen/RTKL study, two factors appeared to cause this problem.

First, criteria for the amount and kind of space needed for various activities in VA medical centers were not sound. As a result, the users of the space often found it did not met their needs. Problems with the criteria include:

- Information needed for use of the criteria (principally staffing information) was often unreliable and difficult to obtain;

- Criteria in many cases appeared to be obsolete and based on assumptions that did not reflect the way health care and support services are actually provided; and

- Washington staff often insisted on applying the criteria inflexibly, with little respect for the reality of how services actually are delivered at the VA's medical centers.

Collectively, these problems underscored the need for changes in the way criteria are developed and maintained.

Second, VA medical center staff saw Central Office as unresponsive to their input during project design, and this resulted in time-consuming conflicts.

It seems desirable to develop procedures that more adequately accommodate users. However, some conflict between individual medical centers and Central Office may be inevitable: Each medical center focuses primarily on its own needs while Central Office is concerned with how to use a limited construction budget most effectively in meeting what it views as the highest priority needs of 172 medical centers. Also, it appears that considerable improvement in user satisfaction has occurred in response to changes put into effect since the Booz, Allen/RTKL report was completed.

UNSOUND PRIORITY SETTING AND INEFFICIENCIES

The Booz Allen/RTKL study found that neither individual VA medical centers nor the VA's Central Office had an inventory of construction needs. An inventory, it stated, should include three categories of information:

1. Maintenance and repair needs of existing structures, systems (electricity, heating, plumbing, etc.), and equipment used by medical centers;

2. Shortfalls in existing space, systems, and equipment needed for the current activities of medical centers; and

3. Shortfalls in the space, systems, and equipment that will be required by future medical center operations, as these future operations are envisaged in approved MEDIPP plans.

Without such an inventory, priority-setting is limited to a choice among projects that happen to be on lists submitted by medical centers (the Five-Year Facility Plans). These projects may or may not address the needs that the VA as a whole sees as having highest priority. The focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in the sense described above.

At individual medical centers, the report also found that, "poor coordination between current projects and future construction needs leads to design solutions that close off future options for development. In some cases, recent construction has even had to be replaced to meet new construction needs."

FAILURE TO ADDRESS PERFORMANCE PROBLEMS

"Problems in the VA construction process often reach major proportions before they are identified by top management and effective corrective actions are taken," according to the Booz, Allen/RTKL Study. "In many cases, even when significant problems exist, they come to the attention of top management only after they have been identified by outside organizations (e.g., OMB, GAO, Congress)."

"A lack of standards and indicators for measuring...." performance in the construction process appears to be the primary problem. "Because of the lack of standards, there is no information to evaluate...aspects of performance...." such as quality, timeliness, or cost, and VA top management "is forced to review detailed project-level information to monitor overall...performance" rather than having indicators it can track.

The report also found "a general perception in the VA that each construction project is unique and that the VA's health care facility construction process is completely different from...." health care facility construction outside the VA. As a result, indicators that are available and appropriate—such as cost per gross square foot for various types of construction—are not used. "The result is poor performance...." in important aspects of the construction process such as timeliness, cost, and quality.

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STATEMENT OF

JAMES N. MAGILL, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

FISCAL YEAR '89 VETERANS ADMINISTRATION BUDGET PROPOSAL

WASHINGTON, D. C. MARCH 3, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Mr. Chairman, thank you for the opportunity to present the views of the Veterans of Foreign Wars with respect to the President's proposed budget for Fiscal Year 1989. We are appreciative of this Committee for holding this hearing and demonstrating its continuing concern for our nation's veterans.

Once again, the Veterans of Foreign Wars is proud to have joined AMVETS, Disabled American Veterans and Paralyzed Veterans of America in presenting to the Congress an independent budget for the Veterans Administration. Unlike last year, the FY '89 Independent Budget encompasses all Veterans Administration programs and, as the name implies, is independent of the Office of Management and Budget's (OMB) influence. Inasmuch as the formation of the Independent Budget requires unanimous approval, the figures contained in the Independent Budget have the total support of the VFW. These figures will allow the Veterans Administration to provide, at a minimum, current services. Due to time

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constraint, I would like to specifically discuss the construction aspect of the Independent Budget followed by a general commentary on the President's proposal.

As in other VA programs, need forms the basis for determining the appropriate level of funding for construction. However, in this, our first attempt to develop a VA construction budget, we found the VA does not have the information required to formulate a needs-based construction budget. In formulating a budget, an inventory basis should include the recognition of maintenance and repair needs of existing structures, systems and equipment used by medical centers; shortfalls in existing space, systems and equipment needed for the current activities of medical centers; and shortfalls in the space, systems and equipment that will be required by future medical center operations. The VA does not have an adequate inventory of construction needs, and the focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in this sense. Currently, the VA's construction priority-setting is limited to choosing among projects submitted by medical centers in the Five Year Facility Plan. These projects may or may not address the needs of the VA on the whole as the VA sees them on a priority basis. What is actually happening is the VA does little more than pick its projects from 172 uncoordinated "laundry lists." The current prioritization method simply places requested projects in priority order and does not address true priority need.

The absence of a sound basis for establishing construction priorities is but one of the major deficiencies in the VA construction process identified by careful studies the VA itself commissioned. These include excessive time required for projects--typically ten years from conception to completion; costs that are sometimes excessive; and, the inability to deal systematically with problems in the construction process.

In addressing the VA's construction needs, our most urgent concern is for the VA to develop a construction process that works well. We envision a process that completes projects more rapidly; chooses projects based on need and on a sound system for setting priorities; provides projects that adequately meet medical centers needs; is economical; and, catches problems quickly before they become severe through a system of standards and indicators for monitoring on-going performance along important dimensions such as quality, timeliness and cost.

An immediate task for the agency in meeting these goals is to develop a sound Facility Development Planning Process (FDPP). The successful completion of the pilot test program for the FDPP, involving four VA medical centers, is a prerequisite to implementing this new process system-wide. Once a proper Facility Development Planning Process has been established, the foundations necessary for developing a needs-based construction budget will be in place.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low total construction appropriations for FY 1989, appropriations totaling $541 million. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in FY '87, and is only $18 million above the very tight appropriation total enacted for FY '88. Within this constrained total, we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA facilities, most of which are now quite old.

We believe the true total of construction needs may be a good deal higher than the total appropriation of $541 million we are recommending. For example: the VA is contracting for only two replacement hospitals or top-to-bottom renovations of hospitals each year, which means it is on an absurdly long 86-year replacement cycle for its 172 hospitals. However, both the current federal budget deficit and the VA's lack of the basic information it needs for construction planning support our endorsement of the conservative appropriations.

Our construction budget also reflects the re-establishment of a reasonable strategy for locating cemeteries in the National Cemetery System. At OMB's insistence, the VA has for years maintained that the system need have no more than one national cemetery with available burial space in each of the ten federal regions. This means extremely long travel distances for widows and children of veterans honored by burial in a national cemetery. Realistically, it deprives many veterans of an option of burial in a national cemetery.

The four major veteran's organizations are unanimous in agreeing that a true National Cemetery System that offers veterans what it appears to promise must meet two criteria: (1) It must have a national cemetery with available grave space in every state. (Eight states do not now have open national cemeteries.) and (2) There must be a national cemetery with available grave space within reasonable distance of the nation's major veteran population centers. This budget starts the process of making the National Cemetery System meet these two criteria.

With respect to specific funding levels, we recommend $368 million be appropriated for major construction in FY 1989, $35 million less than in FY '88, and almost $220 million less than was obligated in FY '87. We recommend this reduction in part because the VA lacks the information and processes to evaluate construction needs and in part because of general federal budget constraints.

Within the $368 million total, we recommend $40 million for the advance planning fund and design fund. These funds permit projects to move continuously through the planning and design stages of the construction process rather than suffering lengthy interruptions while waiting for appropriations. As such, they deal with one of the major problems that has made VA projects take overly long to complete. The $40 million recommended for these funds substantially exceeds the amount allocated to them in past years. In funding them generously, we are seeking to accelerate the construction process. More importantly, we are ensuring a large dollar volume of projects "in the pipeline." Underfunding in this area leads to a choking off of projects by constricting the front-end planning and design stages. Our strategy of generous funding will permit a rapid expansion of the overall volume of major construction projects once VA priority-setting improves and the deficit declines.

We have specifically designated $30 million for construction of new VA nursing homes. This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate of addition of new VA nursing homes each year throughout the 1990s.

Finally, our recommendations for the major construction appropriation include $3 million for the acquisition of land for a new national cemetery in a state that currently has none. We recommend the addition of two new national cemeteries with available grave space each year until the National Cemetery System meets our two goals. We believe that one new cemetery each year can be obtained by donation from a state, and have budgeted for purchase of land for a second. The remaining $295 million of the major construction appropriation should be devoted to other medical construction projects.

With respect to minor construction, we recommend $169 million for FY 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up-to-date. Our recommendation of $169 million for this appropriation for FY 1989 is an increase of $53 million from the FY '88 level. We recommend this increase because of the importance of updating and repairing VA facilities. The largest number of VA facilities date from the

1950s, which means they are at an age when needs for updating and for repair and replacement are high. Moreover, the recommended $169 million for FY 1989 is actually slightly below the obligation level achieved in FY '87.

Most of the total minor construction appropriation--$100 million to be specific--should be spent on medical construction. Of these medical funds, we recommend that $20 million be set aside for conversion of medical center space to nursing home use, and be avilable only for this purpose. Modest amounts of the minor construction appropriation pay for construction projects in the VA's regional offices and its existing national cemeteries. Based on recent years' spending patterns, we estimate that $5 million and $10 million, respectively, are appropriate for these purposes. Finally, we recommend that $54 million of minor construction funds be spent for the VA staff that oversees the construction process. This consists primarily of the Office of Facilities, and we recommend continuation of the current staffing level.

With respect to the President's FY 1989 budget proposal, at first glance, the Administration's proposed $30.1 billion VA budget would at least seem to be in keeping with the objective of providing veterans with a current services budget. But a more thorough review reveals this spending plan to be both painfully inadequate and far below what is even necessary to keep pace with inflation. The deception lies in the fact that even though the requested budget authority is larger than the current year's authority, it includes $1.6 billion for expenditures from VA managed trust funds which do not, in fact, require appropriations. Furthermore, $1.5 billion is included in the budget for proposed legislation of which about $1.3 billion is to be used to fund the Administration's so-called "credit reform" plan.

Thir plan is nothing other than a scheme whereby the Congress will be required to appropriate money equal to the estimated subsidy value (the additional amount OMB claims a VA loan is worth to an individual) of the loans it makes or guarantees. Along with using actual appropriation dollars to cover the OMB estimated paper losses, once the appropriation is used up, the VA will not be allowed to guarantee any more loans without an additional appropriation. This would effectively cap the program and potentially prevent untold thousands of veterans from getting VA loan. Also, the money earmarked for the credit reform scheme inflates the VA budget and makes it appear to be much larger than it actually is. So, when the misleading numbers and deceptive rhetoric are washed away, we are faced with a VA budget which is woefully inadequate to the task of caring for this nation's veterans. For example: overall health care funding would increase by only two percent over the FY '88 level.

The Administration's FY 1989 budget calls for the elimination of 2,439 VA employees. At a time when the demands on the VA health-care system is rapidly on the rise, 1,782 health-care employees would be eliminated. The Department of Veterans Benefits would be forced to eliminate 492 employees including 248 regional office claims adjudicators. Inconceivably, in spite of the fact that over the past five years the VA has struggled to handle claims in a prompt manner, the Administration would eliminate over seven percent of the already overtaxed regional office claims work force.

The VA Home Loan Program, one of the most beneficial veterans' programs in existence, would also fall under the budget cutter's ax. Even though the current strained economic climate has resulted in the loan guaranty program suffering a dramatic increase in foreclosures and in the amount of time foreclosed properties must be managed and maintained by the VA, the FY 1989 budget calls for a reduction of 75 loan guaranty personnel.

The entire Veterans Administration falls under the Administration's proposed budgetary assault. Despite a demonstrated need for an additional 3,500 nursing home beds by 1992, the VA is slated to receive only 120 new beds in FY 1989. In an area of major concern to this nation's Vietnam veterans, the Veterans Administration Vet Center Program would suffer a reduction of 79 full-time employees and a budget cut of $4.7 million. Additionally, the Administration has declined to seek additional funding for the "Veterans' Job Training Act". This invaluable employment program has placed almost 60,000 Vietnam-era and Korean-conflict veterans into jobs and is now just about completely out of money. Of major concern to all, but particularly to older veterans, there will be more than a $34 million reduction in money available to purchase new medical equipment; and the funding for facility construction, modernization and renovation would be reduced by $22 million.

As callous as these proposals are, they really should not come as a surprise. We have all seen this sort of thing before. Once again the President's Office of Management and Budget bureaucrats are placing their cost-cutting schemes ahead of this nation's obligation to its veterans. They are simply refusing to provide for the legitimate needs of our veterans' programs. Just when the VA is suffering a crucial shortage of health-care personnel, OMB is proposing that a large number be eliminated. At this time when the VA's physical plant should be modernized and expanded, OMB is deliberately disregarding equipment and facility requirements. Dollar over duty--plain and simple.

This concludes my statement, Mr. Chairman, and I will be happy to respond to any questions the Committee may have. Thank you.

STATEMENT OF
JESSE BROWN
DEPUTY NATIONAL SERVICE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
OF THE
U.S. HOUSE OF REPRESENTATIVES
March 3, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans and its Ladies' Auxiliary, may I say how very much we appreciate the opportunity to appear here today to comment on the Fiscal Year 1989 budget proposal for the Veterans Administration.

VETERANS ADMINISTRATION FISCAL YEAR 1989 PROPOSED BUDGET

As you know, Mr. Chairman, on behalf of the Veterans Administration, the President is requesting $27.9 billion -- an increase of $865 million over Fiscal Year 1988 funding levels -- to administer the various programs and services for this nation's 78.5 million veterans, their family members and survivors of deceased veterans in Fiscal Year 1989.

Medical Care

The Fiscal Year 1989 budget request for the Department of Medicine and Surgery (DM&S) calls for overall budget authority in the VA's medical care account of $10.3 billion -- an increase of $208 million over the Fiscal Year 1988 level.

Mr. Chairman, in our view, notwithstanding the proposed funding increase, the VA's ability to provide quality and timely health care to America's entitled veterans will continue to erode should the Administration's proposal for the medical care account be enacted.

This is so in view of the fact that $114 million of the proposed increase in the medical care account has been requested specifically to absorb the cost of payroll increases, including the costs of the 1989 civilian pay raise and the Federal Employees' Retirement System (FERS).

According to the budget documents we have been provided, the Administration's budget request proposes, among other things:

* reduction of $4.7 million and 79 FTEE in the VA's readjustment counseling program;

* an exaggerated staff to patient ratio adjustment resulting in the loss of 1,684 FTEE and $55.6 million;

* 135 fewer FTEE and a reduction of $6.4 million for the Decentralized Hospital Computer Program; and

* a projected 1% productivity increase (in reality an arbitrary 1% budgetary reduction) estimated to save $65 million and reduce FTEE by 1,944 in Fiscal Year 1989.

As you may have noted, Mr. Chairman, an additional 1,882 FTEE are being proposed to staff new activations in Fiscal Year 1989. However, the cumulative effect of the Agency's average medical care employment in Fiscal Year 1989 will be a net reduction of 1,782 FTEE.

According to all estimates, the Administration's proposed DM&S budget for Fiscal Year 1989 falls at least $370 million short of the minimum funding level necessary simply to maintain veterans' health care services at current Fiscal Year 1988 levels.

Mr. Chairman, we encourage you and members of the Committee to carefully scrutinize the Fiscal Year 1989 funding levels proposed for the VA medical care account. We believe such scrutiny will lead you to propose a realistic and meaningful funding level that will, at the very least, enable the Agency to provide health care services to those veterans so entitled.

In this respect, Mr. Chairman, we would further urge you to carefully consider the recommendations and funding levels as contained in the Independent Budget for Veterans which has been provided to the Committee. This budget document represents the cumulative and cooperative efforts of several major veterans' service organizations (AMVETS, DAV, PVA and VFW) and represents, in our view, a realistic funding level that would allow the Agency to carry out its mandated mission of providing health care services to disabled veterans.

Medical and Prosthetic Research

Mr. Chairman, the Administration's Fiscal Year 1989 medical and prosthetic research request is $204.2 million ($11 million above the Fiscal Year 1988 funded level).

The DAV has, and continues to be, fully supportive of the VA's combined research efforts. It is discouraging, however, to continue to witness the large disparity in the funding levels for medical research ($175.8 million) and that requested for prosthetic research ($18.9 million) and it is truly disheartening that the current request for prosthetic research has been reduced by $1.5 million from the 1988 level. The DAV supports the mission of Health Services Research and Development and we are encouraged by and support the funding requested.

Construction

The VA's Fiscal Year 1989 construction request totals $500.6 million. Mr. Chairman, while we support full funding of the VA's request for construction purposes, we are nevertheless concerned over the VA's effort to meet the pressing demands on the health care system, especially since the proposed level of funding falls $22 million below the Fiscal Year 1988 level.

As you know, greater numbers of elderly veterans are seeking nursing home care from the VA, yet, in this construction budget proposal only one (1) new 120 bed nursing home care unit has been requested. Additionally, we are concerned that this construction budget request fails to recognize the replacement and modernization needs of the VA's many aging health care facilities. In this regard, Mr. Chairman, we urge the Committee to favorably consider the construction recommendations of the Independent Budget.

We have noted and support the VA's proposal to convert 289 hospital to nursing home care beds. However, in so doing, we would urge the Administration to move swiftly in the conversion process and, when and where indicated, identify additional acute care beds that may realistically be converted to nursing home care. In doing so, we trust an appropriate balance will be maintained to meet the acute, intermediate and long-term health care needs of our rapidly aging veteran population.

Department of Veterans Benefits

The VA's Fiscal Year 1989 request for the Department of Veterans Benefits (DVB) totals $503 million, a decrease of $5.2 million from the Fiscal Year 1988 level. We are seriously concerned, however, that average employment in DVB will decrease by some 492 FTEE.

Mr. Chairman, since 1979 nearly 5,300 employees have been slashed from DVB and, today, each regional office is barely staffed at minimum levels to adequately respond to the workload and demands for services placed upon it from veterans and their dependents.

We have very grave concerns about the VA's ability to continue to provide needed services to beneficiaries and the proposal to reduce average employment will only serve to further curtail the services that the VA is charged to provide.

In this regard, Mr. Chairman, the DAV strongly urges the Committee to adopt the funding level recommended for DVB by the Independent Budget for Veterans.

PROPOSED LEGISLATION

The Administration's Fiscal Year 1989 budget request proposes legislation that would provide for (1) an increase of 4.2% in the rates of disability compensation and Dependency and Indemnity Compensation (DIC), effective December 1, 1988; (2) index compensation benefits to the annual change in the Consumer Price Index; (3) change current law to provide for the VA plot allowance to be paid only in the case of those veterans who were either in receipt of VA compensation or pension benefits at the time of death or to wartime veterans who died without sufficient resources for burial; (4) amend current law to permit lender/borrower negotiated interest rates on VA guaranteed home loans; (5) transfer the administration of the Veterans Mortgage Life Insurance (VMLI) Program to the VA; (6) repeal authority for the Education Loan Fund; (7) increase the per diem paid to state veterans homes; (8) expand the authority to allow tuition reimbursement to nurses for degree related courses; and (9) government-wide credit reform that will identify the grant equivalent subsidy of all federal credit programs -- directly impacting on the VA Home Loan Guaranty Program.

Mr. Chairman, the DAV is pleased with the Administration's proposed cost of living adjustment in the rates of disability compensation and DIC benefits -- in recognition of the special consideration service-connected disabled veterans and their survivors should be given.

Accordingly, the DAV strongly supports the enactment of legislation that would provide disability compensation and DIC recipients with a cost of living adjustment in line with the rise in the Consumer Price Index, effective December 1, 1988.

As strongly as we support this rate increase, we adamantly oppose any effort to index compensation benefits to the annual change in the Consumer Price Index.

Mr. Chairman, in our view, the many and complex benefit programs administered by the VA deserve and, in fact, require continuous oversight scrutiny by the Congress and, specifically, the Veterans Affairs Committees.

Any attempt to index compensation benefits is, in our view, an attempt to diminish the oversight functions of the Congress. Such a result would not be in the best interest of the VA or, more importantly, the beneficiaries they are mandated to serve.

Additionally, we view the initiative to "standardize" the eligibility for the VA plot allowance as simply another example of an Administration effort to repeal an entitlement that has been bought and paid for by honorably discharged veterans. Accordingly, the DAV opposes this legislative proposal.

Mr. Chairman, the Administration is again proposing to remove the Administrator's authority to set the interest rates on VA guaranteed home loans.

The DAV remains adamantly opposed to any proposal to remove the Administrator's authority to set the interest rates on VA guaranteed home loans. Should this occur, interest rates would then be dictated by mortgage lenders at, we suspect, a level significantly higher than would be set by the Administrator. Without doubt, all veterans, including service-connected disabled veterans, would be adversely affected by such a procedure.

Also, Mr. Chairman, the Administration is seeking the enactment of government-wide credit reform legislation that will, according to VA budget documents, identify the grant equivalent subsidy of all federal credit programs, including those administered by the VA, and require subsidy payments to one of two central revolving funds to be established at Treasury.

This subsidy would be created, according to the Administration, in recognition of the necessary resources required to reflect the true cost of credit for effective federal budgetary control. In their view, federal credit programs provide more favorable terms than borrowers could otherwise obtain in the private market, thereby resulting in a subsidy to the borrower.

The Administration has proposed specific equivalent subsidy (percentage) values for all VA loans -- guaranteed, direct and vendee -- that will require an appropriation in Fiscal Year 1989 of more than $1.3 billion to fulfill the requirements of their proposal. While, at the same time, they estimate to reduce VA loan program budget authority and outlays by more than $246 million.

From the information provided, it appears that the VA's Revolving Funds would eventually be eliminated, while the VA would, apparently, continue to administer their various loan programs.

Mr. Chairman, the DAV has some serious reservations and questions regarding this credit reform proposal. For example:

* By eventually terminating VA revolving funds, does this mean that certain VA functions, such as property management, will also be transferred to Treasury?

* Is the equivalent subsidy appropriation really required "up front" without first determining the actual needs of the fund?

* Will the "up front" appropriation be specifically earmarked for VA loan programs, or will it become available to settle indebtedness in other federal loan programs?

* Will the VA be required to change the manner in which they currently administer their various loan programs?

* Should the manner and procedures the VA currently follows to administer their loans change, what impact will this have on eligible VA beneficiaries?

The Administration, in our view, has failed to provide convincing information for the DAV to support their credit reform proposal. In addition, it is unclear how they justify reducing loan program budget authority and outlays in Fiscal Year 1989.

Mr. Chairman, contrary to the information provided in the Administration's budget documents (attempting to justify their credit reform proposal) it would appear that the real purpose of the reform is to limit all new loan obligations in the near term with the ultimate goal of virtually eliminating all such federal programs.

There is one proposal clearly missing from this budget request -- an authorization and appropriation request for the Veterans' Job Training Program. We urge the Committee to favorably consider excending and funding this important program.

In conclusion, Mr. Chairman, as we have noted several times during the course of our testimony today regarding the VA's proposed Fiscal Year 1989 budget, we strongly endorse the combined effort of several veterans' service organizations. That effort is the Independent Budget for Veterans.

In our view, the Independent Budget represents a realistic assessment of the VA, its programs and the beneficiaries it is mandated to serve. We strongly urge you, Mr. Chairman, and the members of the Committee to favorably consider the Independent Budget and then recommend to the Budget Committee funding levels that truly reflect the needs of all VA benefits, programs and services.

* * *

DEPARTMENT OF LABOR VETERANS' EMPLOYMENT AND TRAINING SERVICE PROPOSED FISCAL YEAR 1989 BUDGET

Mr. Chairman, with the exception of the Local Veterans' Employment Representative (LVER) budget request, we believe the Department of Labor's Veterans' Employment and Training budget request is adequate for Fiscal Year 1989.

The Administration is requesting $142.4 million for Fiscal Year 1989 to fund the Veterans' Employment and Training Service. This includes $127.3 million for the LVER and Disabled Veterans' Outreach Program (DVOP).

Mr. Chairman, $73.8 million of the $127.3 million is earmarked for DVOP. This amount would fund 1,891 positions which we believe is adequate and complies with Section 2003A of Title 38, U.S. Code. The remaining $53.4 million would fund only 1,252 LVER positions, falling 205 positions short of the number required based on the Department of Labor's funding formula for LVERs.

It is significant to note, Mr. Chairman, that in January, 1981, there were approximately 2,400 LVER positions nationwide. During the past seven years we have witnessed almost a 50% decrease in the number of LVERs providing direct employment services to our nation's veterans.

* * *

Mr. Chairman, this concludes our testimony. Again, I wish to thank you and the members of the Committee for allowing us this opportunity to present the views of the DAV on this important issue.

STATEMENT OF
R. JACK POWELL
EXECUTIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
REGARDING THE
PRESIDENT'S PROPOSED FISCAL YEAR 1989
VETERANS ADMINISTRATION BUDGET REQUEST
MARCH 3, 1988

Mr. Chairman and Members of the Committee, on behalf of Paralyzed Veterans of America (PVA) I appreciate this opportunity to comment on the President's Fiscal Year 1989 Budget Request for the Veterans Administration. I am R. Jack Powell, Executive Director of Paralyzed Veterans of America. It is a pleasure for me to present our views of the adequacy of next year's proposed VA funding levels so important for the health and well-being of our Nation's veterans.

Once again, as in the past several years, the Administration has presented the veterans of this nation a "smoke and mirrors" budget which falls far short of meeting the current and projected demands placed on the VA by the veteran population. The proposed "increases" in Fiscal Year 1989 spending, calling for $30.1 billion in budget authority, are "padded" by well over $2.7 billion in expenditures from nonappropriated VA trust funds and ill-advised credit reform legislative proposals. When this budget is finally stripped clean, we see a funding proposal that is well-below zero growth for the VA and nowhere near meeting even the "current services" needs of the agency. Once funding for entitlement programs is factored out, the discretionary portion of the budget, the area so necessary to maintain quality benefit delivery, would rise only 1.8 percent over FY 1988 levels. The consumer price index is projected to increase 4.5 percent and the medical inflation rate expected to be far higher still. The budget, in aggregate, is $212 million short of meeting FY 1989 appropriation levels for overall VA current services. Proposed funding for VA health care services is $370 million below the current services mark for the Department of Medicine and Surgery.

If this projected shortfall only represented a one-year cut in VA spending in order to make adjustments due to deficit pressures, PVA could well understand the motivation of the Administration in presenting this proposal. However, VA programs have already contributed well over $2 billion to deficit reduction over the past five years. In the past two years alone, budget proposals and approved appropriations levels have consistently failed to meet even current services projections for the Agency as determined by the Congressional Budget Office. What we see happening is a persistent and pernicious erosion in the ability of the agency to maintain the quality and quantity of benefit delivery and health services at a time when the demands placed on the VA by a rapidly aging veteran population are on the rise. The result not only hurts the veteran, but calls in serious question the professional ability and the perception of the agency to deliver benefits properly and fairly as mandated by the Congress.

There is a recurring statement which has surfaced from time to time in recent years which implies that "veterans have never had it so good." It would be interesting, as well as ironic, to apply this statement to the veteran who has to wait more than a year and a half just to have a claim processed; or the veteran denied medical care because there weren't enough nurses and technicians at the hospital to care for him. This is not hype. It is reality.

The budget calls for an overall reduction of 4,270 full time employee equivalents (FTEE) system-wide. It would then add 1,882 FTEE, but only for the activation of new facilities which are coming on line. If this budget proposal is approved, the VA would actually experience a net loss of approximately 2,400 FTEE which includes 1,732 from medical care and 496 FTEE from the Department of Veterans Benefits (DVB) and the Board of Veterans Appeals.

PVA is deeply concerned over the continued erosion in staffing within DVB. The Administration, in making these cuts, consistently argues the reductions are warranted due to lower workloads and so-called "productivity initiatives" brought on by improvements in automation. Based on PVA's own on-site evaluation of the operation of the the VA Regional Offices, we find this absolutely untrue. The complexity and number of the cases currently pending at the Regional Office level have far overtaken the ability of DVB staff to process these claims effectively and in a timely fashion. We also find it ludicrous for the Administration to cite management improvements and increased automation as rationale for lower DVB staffing, while at the same time it proposes to further cut spending by denying any funding for the DVB system's enhancement.

In our opinion, DVB has suffered a crippling blow by the severe reductions in staffing levels proposed over the past several years. A further reduction of almost 500 staff, which would include 248 regional office claims personnel - a 7.1 percent cut in the workforce - would severely endanger quality of claims processing and due process mandated by the Congress for the veteran population.

The budget would also cut 75 loan guarantee personnel right at the time when the VA should be drastically improving its loan servicing and property management services to salvage this program and prevent further drains on the federal treasury.

A reduction of 1,802 FTEE from the Department of Medicine and Surgery also flies in the face of reason. It is implausible for us to imagine how the agency can continue to maintain service and mandated bed levels based on the expanding demands of an older veteran population with fewer personnel. Even before the FY 1989 budget is factored, the FY 1988 enacted appropriation total for DM&S is already $65 million less than the funding needed to keep the health care system operating at a 1987 level. At the same time, the VA inpatient and outpatient projected utilization figures fall far short of what PVA believes to be the actual demand placed on the system by potential veteran client populations. To name just a few: the denial of outpatient services to the medically indigent to obviate the need for inpatient services; medical needs of homeless veterans; increased costs for AIDS treatment; the World War II Merchant Seamen who were recently granted veteran status; suppressed demand from veterans in rural areas seeking health care but unable to go to the VA because of beneficiary travel restrictions. The budget states as well that it provides for the FY 1989 anticipated two percent pay increase. In reality only one-half of the necessary personnel funds are included to cover this increase. The balance will have to be taken from further reductions in staffing.

The American Medical Association recently reported its finding that, as a nation we will have to build a 200-bed nursing home every day between now and the year 2000 just to meet institutional long term care needs of a rapidly aging population.

The VA has projected a need for an additional 3,500 nursing home beds by 1992. Yet, this budget only calls for the construction of 120 new beds in FY 1989. Despite its projections, for FY 1987, the VA has converted only three beds in the entire system last year. This certainly calls in question the agency's projection of converting 232 beds this fiscal year. The FY 1989 budget proposal calls for the conversion of 289 additional beds next year, but ironically claims a reduction in staffing in achieving that conversion. We have to wonder who will provide the care for those veterans eventually occupying those beds if the beds are ever converted at all. At the same time the budget cuts $22 million from the facility construction, modernization and renovation account.

The Administration proposes a $4.7 million reduction and a loss of 79 FTEE from the Readjustment Counseling Program for Vietnam Era Veterans (Vet Center Program). PVA has testified consistently in support of this program and for the need to maintain the existing numbers of community based Vet Centers. They are a valuable resource for the Vietnam Veteran population and the veterans' community at large. We estimate that a reduction in staff and resources of this magnitude would mean the closure, relocation and reduction in force of fifteen to twenty Vet Centers. Current Vet Center utilization figures show no decline in workload. In fact, client activity, including new clients coming to Vet Centers for assistance, is on the rise. We recommend that these cuts be rejected in order for the Congress to assess and promote the full potential of the Vet Center Program for Vietnam Veterans and all veterans.

VETERANS' JOB TRAINING ACT

PVA is also concerned that the President's budget completely ignores the employment needs of veterans by calling for no funding for the Veteran' Job Training Act. Since enactment of this legislation, we have found the program to be one of the most effective means of providing active training and retraining opportunities for unemployed or under-employed Vietnam Era and Korean War veterans through private sector incentives. We encourage the Committees to restore funding for this important program.

VA HOME LOAN GUARANTY PROGRAM

The Administration is once again submitting legislation that would repeal the VA's current authority to establish maximum interest rates on VA guaranteed loans. This legislation would allow that loans guaranteed or insured under Chapter 37 of Title 38 be payable on such terms and conditions as may be agreed upon by the veteran and the lender, and that these loans would bear interest at such rate for the lifetime of the loan. PVA strongly opposes this provision.

We are primarily concerned that if the Administration's proposal of negotiated interest rates were implemented, the "no down payment" feature of the VA Home Loan Guaranty Program would be jeopardized. Since the inception of the Home Loan program over forty years ago, the dream of home ownership has been made possible, primarily, because veterans and service personnel were not forced to liquidate their life savings in order to make the down payment on a home. PVA believes that in order for a veteran to negotiate and secure a favorable interest rate, it quite possibly would be necessary for the veteran to make a sizable down payment, thereby removing one of the most advantageous features of the program. Such a proposal would remove the incentive for veterans to participate in the program. It would also place the veteran borrower in a situation where he would have to seek out favorable terms and possibly be forced by lenders to accept above market rates.

The Administration is also resubmitting a legislative proposal known as the Credit Reform initiative. This involves a grant equivalent subsidy which occurs when the Government provides credit to borrowers on more favorable terms than what is available in the private sector. The Administration's proposal will require subsidy payments to a central revolving fund at Treasury prior to making a loan. Although the VA will continue to administer the program, the Treasury will be the central financing mechanism. PVA is opposed to this proposal because we feel the VA will lose substantial control of a program that is rightfully within the complete jurisdiction of the VA Home Loan Guaranty Program. In order to maintain the integrity of the VA's guaranteed loans, we strongly oppose any effort to diminish the VA's role in their own program by placing the control financing mechanism, side by side, with all other new federal loans under the jurisdiction of the Treasury.

LOAN GUARANTY REVOLVING FUND

As we have stated in our Independent Budget, an accurate estimate of the needs for VA's Loan Guaranty Revolving Fund is difficult to ascertain. A significant part of the problem is due to economic and market conditions that are extremely adverse in certain areas of the county. We urge the Congress to fully address the programmatic and financial problems of the fund.

We do recommend that Congress increase the number of direct loans the VA is authorized to make to eligible veterans. Prior to 1980, the VA direct home loan program produced significant income for the revolving fund. We believe this represents a fiscally responsible initiative to ensure the long term security of the VA Home Loan Guaranty Program.

The fund is currently in a significant deficit situation; $390 million has been appropriated for FY 1988. We recommend an appropriation of $600 million for FY 1989 in light of the growing deficit in the fund. Finally, we continue to oppose any effort to increase the one percent loan fee.

AN INDEPENDENT BUDGET BY AND FOR VETERANS

Mr. Chairman, for the second time PVA is proud to have joined forces with three other major veterans' service organizations in a cooperative effort to develop an independent assessment of the projected resources required by the Veterans Administration to maintain service delivery system. As you know, the "Independent Budget" last year focused primarily on the program requirements of the VA's Department of Medicine and Surgery. This year we expanded the scope of our recommendation to include funding for all veterans' benefits and services.

PVA believes these recommendations are a reasonable and realistic assessment of the current status of the VA Budget and an appropriate guideline for the future direction and maintenance of VA funding levels.

This budget was designed with a full realistic appraisal of the fiscal restraint which is driving all federal programs and services. The total recommended VA appropriation level is $28.485 billion which is only 346 million above the FY 1989 projected level to maintain current services. As a result, most of this recommended increase is required merely to cover increasing costs to maintain needed program levels and not for new initiatives.

Mr. Chairman, with your permission I would like to submit a copy of the "Independent Budget" for inclusion in the record.

Mr. Chairman, we wholly reject the rationale of the President's proposed budget that the VA can continue to do more with less. There are methods in which the VA can operate more cost-effectively and efficiently; however, this does not mean that less money and personnel are required to fulfill the agency's mission. We call upon you and your colleagues to adequately address the needs of the Veterans Administration and this Nation's veterans as you craft the Fiscal Year 1989 budget.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

Statement of

NOEL C. WOOSLEY
AMVETS National Service Director

Before The

HOUSE COMMITTEE
ON VETERANS' AFFAIRS

ON

THE PRESIDENT'S PROPOSED FISCAL YEAR 1988
VETERANS ADMINISTRATION BUDGET REQUEST

VS.

THE INDEPENDENT BUDGET PROPOSAL
BY VETERANS FOR VETERANS

March 3, 1988

AMVETS is pleased to present our views on the Administration's proposed budget for the Veterans Administration for Fiscal Year 1989.

The attitude conveyed in the Administration's proposed budget for FY 1989 does not portray a willingness to meet the challenge of adequately caring for those who served in America's military forces. These brave and unselfish men and women have earned certain entitlements and benefits which a grateful nation says they richly deserve. Many of these entitlements and benefits may well cease to exist if this budget authority is not modified to reflect a true inflation rate. As it stands, this budget proposal will not allow the VA to maintain current services.

Whereas the Independent Budget (I.B.) Proposal may afford the VA adequate funding to maintain its integrity with respect to its mission and goals, we use the words "may afford adequate funding" because it became apparent that if we were to produce an I.B. that was in keeping with the current trends of budgetary restraint, some benefit programs would have to suffer dollar-wise or be placed on the back burner. While this is not the way we would have liked to approach the budget issue, if by taking this approach we are able to shore up the leaking dike of the Veterans Services Division and the VA health care system then so be it.

The President's budget request for FY 1989 calls for $27.927 billion to fund medical, compensation, and other programs to care for 27.5 million veterans, eligible members of their families, and survivors of deceased veterans. While this request is some $865 million greater than FY 1988 estimated requirements, it will once again fall short of what is needed in real dollars.

The 1989 proposed Administration budget provides $16 billion for benefit programs, $10.6 billion for medical programs and $501 million for construction. Total agency full-time equivalent employment is expected to be 219,830 - down 2,439 from that which is currently proposed for FY 1988. The VA claims that this loss will once again be absorbed by improvement in productivity, greater automation capabilities and a decreased case load. We have heard this before and yet the time it takes to process a beneficiary's claim continues to increase. AMVETS does not find it acceptable for the VA to modify its timeliness standards in an effort to meet timeliness requirements. In other words, the three months it took to process a claim in 1983, and meet timeliness requirements, now takes six months to process and yet is still considered timely. This is achieved by simply changing the timeliness standard. The VA has what it deems as an acceptable loss call rate, however, they have no way of telling how many claimants call who never get through. This works out somewhat like changing the timeliness standards, as you cannot lose a call you never received.

D.V.B.'s critical outreach efforts with respect to its fiduciary program is almost non-existent at this time due to a lack of proper funding for Regional Office travel.

The Department of Veterans Benefits is under-staffed and over-worked, which tends to compound the problem, and yet the President's budget proposes to cut an additional 492 FTEE from D.V.B. Of the 492 FTEE's lost, 248 will come from the Adjudication Division and no amount of lower case loads, automation or increased productivity will stop the trend of a steady increase in timeliness which we have witnessed over the last five years.

We call the Committees attention to the Independent Budget which calls for, and justifies the need to increase DVB staffing, not reduce it.

The VA's $10.7 billion request for compensation payments is based on estimates that veterans eligible for monthly payments, along with the survivors of veterans who died of service-connected causes, will decrease slightly in FY 1989. The request provides for a 4.2 percent increase in compensation rates and additional legislation will be proposed to index compensation benefits to the annual change in the Consumer Price Index (CPI). While the I.B. calls for $10.8 billion for compensation payments and a supplemental of $390 million to fund a full 4.5 percent cost of living allowance (COLA), the willingness to accept a reduced COLA should be noted. This reduction must be equitable and across the board. It should also be noted that AMVETS, as it has in the past, remains oppcsed to the automatic indexing of compensation and DIC rates to the CPI. The special needs of many service-connected disabled veterans may not be equitably reflected in the general CPI.

AMVETS, like this committee, is concerned with the increased cost of the VA Home Loan Guaranty Program and the Administration's budget request for $658 million in FY 1989 to fund same serves to underscore that concern. While the need for improvement in this program is apparent, how to improve it seems quite complex. We hope that as the Administration moves to correct various deficiencies within the program they do not lose sight of the fact that this is a benefit program for veterans and not a profit/ loss business enterprise. Proposals to remove interest rate limits for VA guaranteed loans is not a way to improve the program. The wholesaling of VA portfolios may be a short term improvement - but what happens in the long run? Stopgap measures acted out without the proper research will not achieve the desired results. Therefore, AMVETS supports the initiative set forth in S.2049.

Be it S.2049 or some other initiative - AMVETS is confident that the current trend in the Loan Guaranty Program can be turned around and the full $658 million requested for FY 1989 will not be needed. Thus the I.B. request of $600 million.

Although the VA budget calls for an overall increase of $865 million over FY 1988 authority, including $208 million more for medical programs; the increase actually becomes a decrease of approximately $370 million in the current services level. It should also be noted that the proposed budget, which falls far short of the mark, claims it will allow the VA to provide quality health care to 1.2 million inpatients, up 7,055 over FY 1988, and 23.1 million outpatients, up 211,000 over FY 1988. The Administration claims they will be able to provide said quality health care despite inadequate funding and a loss of 1,782 FTEE from DM&S. Here again the introduction of new technology is slated to compensate for these losses. A question that comes to mind is how many direct medical care staff will be involved in these cuts? This question is of great concern because we are unaware of any technology that has a bedside manner.

The Administration's continued attack on the Readjustment Counseling Program for Vietnam Era Veterans (Vet Center Program), has AMVETS, and probably others, confounded. Since 1980, five organizational elements or committees have conducted formal reviews of the Readjustment Counseling Program and provided recommendations. The overall concensus is that the Vet Centers are providing a much needed service which is cost effective. The findings of these organizational elements were reported to this committee, as well as the Senate Committee on Veterans Affairs, on April 1, 1987. AMVETS has reviewed this report in its entirety, as well as the final G.A.O. Report issued August 1987. We assume the Administration has reviewed these reports. However, based on the proposed $4.7 million reduction and a loss of 79 FTEE from this program we are unsure. It is our understanding that the VA formally appealed this reduction to the Office of Management and Budget but to no avail.

AMVETS strongly opposes these cuts and suggests that the Congress review this program with the thought of providing expanded service to all combat veterans of any conflict.

The Administration's proposed 1989 budget with respect to the aging veteran population appears to be meeting the challenge by ignoring it. This is apparent in the number of new nursing home beds proposed in FY 1989. AMVETS is aware that the VA and the private sector will not have adequate nursing home beds to meet the needs of our aging population. However, the current request for 120 new beds for FY 1989 is ludicrous if not accompanied by funding for rapid expansion of non-institutional long term care programs, i.e. hospital based home care, added adult day care programs, community based residential care, increased geriatric research, etc.

AMVETS also wonders why the President's budget calls for no funding of the Veteran's Job Training Act. This program is a proven winner for unemployed or under-employed Vietnam Era and Korean War veterans. We solicit the committee's support to restore funding for this program.

To quote the Honorable G.V. (Sonny) Montgomery, Chairman House Veterans Affairs Committee, "The Administration's proposed FY 1989 budget is painfully inadequate."

Therefore, AMVETS would like to bring to the committees attention a budget proposal by veterans for veterans. We are again proud to have joined with the Disabled American Veterans, the Paralyzed Veterans of America and the Veterans of Foreign Wars of the United States in formulating a detailed, independent budget proposal for the Veterans Administration's FY 1989; copies of which have been widely distributed to include the members and staff of this committee. We are of the opinion that this independent budget proposal is realistic in it's content and will better serve the VA - who will then be able to better serve America's veterans.

Statement of

The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

by

E. PHILIP RIGGIN, DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

JOHN F. SOMMER, DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION

before

THE COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

FISCAL YEAR 1989 VA BUDGET

March 3, 1988

STATEMENT OF JOHN F. SOMMER, JR., DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
BEFORE THE COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
March 3, 1988

Mr. Chairman and Members of the Committee:

The American Legion appreciates the opportunity to set forth its views on the proposed funding for the Veterans Administration for FY 1989 following an initial appraisal of the budget submitted to Congress by the Administration.

The President has proposed for the Veterans Administration, budget authority of $30.1 billion to fund medical, compensation, and other programs for the nation's 27.5 million veterans, eligible members of their families, and survivors of deceased veterans.

Included in the total is an appropriation request for $27.9 billion, a net amount of $1.5 billion related to proposed legislation and $694 million in permanent authorizations and offsetting receipts. The actual appropriations request is an increase of $865 million over funds appropriated for FY 1988.

While the Administration's proposed overall increase in funding appears to be somewhat positive in nature, there are a number of ill-considered proposals incorporated into the structure of this budget, and each of them will be addressed in detail later in the statement.

At the outset Mr. Chairman, we feel it necessary to reiterate The American Legion's long-standing philosophy on the funding of veterans benefits and programs. The organization has a total commitment to the health and well-being of this nation's veterans, and therefore, stands for full funding for veterans programs. By that we mean there should be provision of such funds as are necessary to effectively carry out the programs that have been established by Congress. We support all of those programs. Each of them had a purpose when enacted, and each has been proven as currently meeting a legitimate need of the veteran population. We are aware of no programs at present that are superfluous or redundant.

We also feel it imperative to note that the Federal budget, between Fiscal Years 1977 and 1986, increased by 147 percent, compared with a 47 percent increase in the budget of the Veterans Administration during the same period of time. This is a point that has never been made by the critics of adequate resources for veterans programs, and if the entire budget of the Government had progressed at the same rate as VA, there would be a surplus rather than a deficit.

Veterans who receive VA benefits earn them - and they deserve them. As citizens first, and veterans second, we appreciate the ongoing attention to the legitimate needs of veterans who are less fortunate than some of their fellow comrades.

It seems that with each new budget come new and innovative methods by which to whittle away veterans' programs. Thus, The American Legion is grateful that the Congress, under guidance and counsel of the Veterans Affairs Committees, maintains a high level of responsibility in the formulation of the VA budget.

Before providing comment on specific budget items, which will be done for the most part with reference to the departments of the VA that administer them, we shall first address those legislative proposals set forth in the budget message. These represent a miscellany of ideas, old and new, some of which seem to totally ignore the anticipated demand for essential benefits and services.

LEGISLATIVE INITIATIVES

# The Administration recommends a cost-of-living adjustment of 4.2 percent in compensation and related benefits to be effective December 1, 1988. The position of The American Legion is that these COLAs should be at least consistent with increases in the Consumer Price Index. The proposed 4.2% increase for those disabled in service - the most deserving of all Federal beneficiaries - appears, to be commensurate with the current rate of inflation.

The budget proposal contains a legislative initiative that calls for veterans' disability compensation and survivors' DIC rates to be indexed, by statute, to automatically increase by the same percentage which Social Security benefits increase. The American Legion opposes the indexing of compensation and DIC benefits, and we

have testified in opposition to identical proposals in the past. We have found through the years that Congress has been fair and generous in providing for cost-of-living adjustments in benefits for the service-disabled and survivors of service-deceased. Of equal importance is the fact that hearings before the Veterans Affairs Committees on legislation relating to the COLAs, provides a forum at which other legislative issues such as Special Monthly Compensation eligibility criteria, and the development of additional presumptive disabilities may be discussed.

# Another proposal would change the eligibility for the current $150 plot allowance making it consistent with the eligibility requirements for the basic burial allowance in FY 1990. The American Legion is totally opposed to this idea. We continue to feel that Congress made a mistake when it restricted criteria for the burial allowance. We are mandated to pursue the restoration of the former eligibility criteria for the burial allowance to all veterans, and to increase the amount of the plot allowance.

# A proposed amendment to section 806 of title 38, U.S.C., would authorize assumption by the VA of full responsibility for the Veterans Mortgage Life Insurance program. We understand that under current law a private insurance carrier acts as the insurer in this program, and it is reported that this arrangement has proven to be costly and inefficient. Upon review, we found that there are over 5,500 veterans covered in this program and approximately 408 claims were handled in 1987. In light of the projected annual savings of $100,000, we see no reason why the VA Insurance Service cannot absorb the additional workload, and we support this proposal.

# Proposed legislation would repeal the authority that permits VA to make education loans to veterans. This has been attempted several times in the past. Although an earlier cost-savings measure, the Omnibus Budget Reconciliation Act of 1981, limited the number of individuals eligible for VA education loans, those who retain eligibility and who depend on these loans could be forced to discontinue their program of education or training. Thus the American Legion continues to oppose this initiative.

# The Legion supports annual cost-of-living increases in the Reinstated Entitlement Program for Survivors, (Social Security for survivors of veterans who died of service-connected causes), including a 4.2 percent increase effective December 1, 1988.

# The American Legion strongly supports the expansion of authority to allow tuition reimbursement to nurses for degree-related courses, as much needs to be done in the way of salaries and fringe benefits for the purpose of retaining and recruiting nurses in the VA system.

# The Administration's Federal credit reform proposal would require that agencies issuing Federal credit bear the costs of the grant equivalent subsidies provided through credit programs. According to the information contained in the budget message, a grant equivalent subsidy occurs whenever the Government provides credit to borrowers on more favorable terms than those available in the private sector. The proposal would require that VA make payments to Treasury in the amounts of the subsidy prior to the issuance of a vocational rehabilitation loan. Loans of up to $620 are available to service-connected disabled veterans enrolled in vocational rehabilitation programs as provided under Chapter 31 of title 38, U.S.C. when, in the opinion of the rehabilitation counselor, the veteran is temporarily in need of additional assistance. Repayment is made in ten monthly installments, without interest, through deductions from future payments of compensation, pension, subsistence allowance, educational assistance allowance, or retirement pay. Therefore, repayment of the loan is virtually guaranteed. We see two problems with this proposal. The initial problem is that the Treasury could conceivably be empowered with the authority to impose policy on the Veterans Administration with respect to the operation of the vocational rehabilitation loan program. In addition, the figures involved would, as it has in the instant budget proposal, distort the VA budget. It gives the appearance of additional funding for veterans, but it does not effect veterans whatsoever. Therefore, we do not support this proposal. A similar discussion is contained in the discussion of the VA Home loan program later in this statement.

DEPARTMENT OF VETERANS BENEFITS

Of the agency's total budget for FY 1989, 57 percent will be allocated to the direct benefit program activities of the Department of Veterans Benefits. These programs are, for the most part, entitlements that statutorily must be funded. Their purpose is to provide compensation for service related death and disability, nonserviceconnected disability and death pension benefits, education subsistence allowances, and burial benefits.

These direct benefit programs are administered through 59 regional offices located in the 50 United States, the Commonwealth of Puerto Rico, and the Philippines. Under the proposed budget there will be a reduction in average employment of 492 FTEE within the Department with a net reduction in payroll of $7.5 million. This includes losses of 248 in the Compensation, Pension, and Education Service; 73 FTEE in Veterans Assistance Service; 75 in Loan Guaranty; 49 in Insurance; 11 in Vocational Rehabilitation and Counseling Service; and 54 in Support Services.

As a basis for the reduced employment levels, the summary accompanying the budget request states that the decrease in the Department's employment request of 492 FTEE in 1989 is attributable to modernization savings of 54 FTEE, and 438 FTEE due to productivity improvements and declining workloads. These caseload reductions, the summary states, are commensurate with trends reflecting our declining veteran population.

The American Legion is supportive of economy of personnel in management, and maximum productivity by all Federal employees. We have stated so in the past. However, the complexity of veterans' claims has increased due in part to issues such as the pathology of post-traumatic stress disorder, the effects of exposure to Agent Orange and ionizing radiation, just to name a few. The more complex an issue is the more man-hours required to properly develop and adjudicate each case. A certain minimum of personnel is needed to properly process cases, without delay-causing errors that have to be corrected; and productivity can only be used as a relative guide when considering the amount of work that must be done in processing a single case for an award of benefits.

Mr. Chairman, if these proposed employment reductions are enacted, the employment in the Department of Veterans Benefits will have been reduced by well over 6,000 FTEE since 1979. The American Legion is concerned by the cumulative effect these consistent and persistent personnel losses have had on both the quality and timeliness of the delivery of benefits and needed services to veterans and their survivors.

The impact of reduced staffing levels at DVB field stations in recent years is graphically illustrated by steady increases in both the processing times and the error rates in benefit claims. According to available figures, in FY 1982, the regional offices were able to process 41.5% of their compensation cases in 90 days or less. In FY 1987, they were only able to complete processing on 30.9% of compensation cases within this standard. In FY 1982, 56.3% of the pension cases were completed in 90 days and in FY 1987, the percentage was 53.0. In FY 1982, 65.5% of the burial claims were processed in 30 days and in FY 1987, only 55.2% were completed within 30 days. Of particular concern, is that during the last three years, there has been no appreciable improvement in the quality of the decision-making processing in the field. Rather, the trend reflects a perceptible increase in the error rate in both authorization and rating decisions.

These figures, however, do not completely measure the impact of the continuing loss of personnel upon the individual regional offices. Although there have been no formal reductions in force, attrition through transfers to other agencies, resignations, and retirements without replacements have been the methods by which mandated staffing reductions have been met. This process does not produce a uniform result at each station. The loss of key adjudicative, administrative, or support personnel directly effects the timeliness of the claims processing operations.

DVB has recently developed a proposal to implement the consent decree in the litigation Semenchuk v. Walters, by establishing 30 hearing officer positions to conduct personal hearings at regional offices. Personnel for these positions will be drawn from existing rating boards, and most likely, will require additional funding for training,travel and support.

The justification for the continued reduced levels of staffing in the field stations is predicated, in part, on trends indicating the number of claims has been steadily declining. The most often cited example of such trends is the current education program for Vietnam Era veterans wherein the number of veterans who are eligible and enrolled has sharply declined in recent years. In addition, the program will terminate on December 31, 1989. This set of circumstances should theoretically enable regional office directors to reassign adjudication and authorization staff to other types of cases as this program phases out. This favorable scenario, however, overlooks the fact that P.L. 98-525 has provided new educational benefit programs and the overall educational caseload has begun a phase of long-term growth. Under Chapter 32, the Post-Vietnam Era Veterans' Educational Assistance program the number of participating individuals has grown from 63,000 in 1986 to approximately 88,500 in 1988. The numbers, however are expected to gradually decline to 59,500 by 1993. Under Chapter 30, the All-Volunteer Force Educational Assistance Program, however, the number of current participants for 1988 is projected to be 19,400 and will more than double in FY 1989 to 41,900. The number of participants will continue to increase to level off at 242,000 by 1993. The Selected Reserve Educational Assistance program is also expected to undergo substantial growth during the same time period. The number of participants will have grown from 52,400 in 1987 to 136,000 by the end of 1988 and reach a total of 185,300 in 1989. Enrollment is expected to level off at about 213,000 by 1992.

Mr. Chairman, we wish to reemphasize the fact that the average employment in the field stations has been sharply decreasing in recent years. In 1986, the staffing level was 3,801 FTEE. In 1987, this was reduced by 117 FTEE. In 1988, it was further cut by 174 FTEE and under the proposed budget for 1989, staffing will be further reduced by another 248 FTEE. These figures relate to Compensation, Pension and Education alone, and do not include reductions in other staff.

The American Legion is deeply concerned that the field operations of the C&P Service under current staffing levels cannot process the present workload in a reasonable, timely, and efficient manner. The current workloads and what in our judgment are unnecessarily lengthy processing times, do not justify the proposed staffing levels.

Mr. Chairman, we wish to also comment on several factors which will have a very clear and immediate impact upon the field station workload and which have not been addressed in this budget proposal. On January 19, 1988 veteran status was granted to former members of the Merchant Marine. This group which numbers 80,000 - 90,000 is now eligible for the full range of benefits and services enjoyed by other war veterans. The small trickle of claims already filed will undoubtedly grow substantially in months to come.

In addition to the requested decrease of 438 FTEE based upon productivity improvements and declining workloads, a further reduction of 54 FTEE is included based upon modernization savings. However, under the budget requested for ADP Systems Management, the funding level is some $12 million less than the FY 1988 level. The FY 1989 request and the short-term improvements to be undertaken or completed during this period, have not thus far addressed the problem of productivity or timeliness of claims processing, in our judgment. The American Legion is supportive of DVB's efforts to implement an ADP modernization program, in view of the age and limited capacity of the current TARGET system equipment. The ultimate goal of this program will be to improve the efficiency and quality of the claims processing operations in the regional offices, thereby realizing savings in staffing and resources. Claimants will likewise benefit by having their claims handled more expeditiously. It is, therefore, not at all clear how the current "bare bones" approach to modernization is expected to produce the anticipated personnel savings cited in the current budget proposal.

We believe an obvious conclusion can be drawn that the continued reductions in staffing levels in the field stations have had a direct and adverse impact on the VA's overall ability to deliver benefits and services in an efficient and timely manner. There is no doubt that the planned introduction of new technology and upgrading of current equipment and systems will enhance field station operations. However, we hasten to note that current efforts toward modernization are primarily focused on maintenance of the current level of ADP support and long-range planning. Implementation of any major improvements is still some years away.

The American Legion is convinced that the Department of Veterans Benefits cannot operate effectively at the projected level. We, therefore, recommend restoration of funding for at least the 248 DVB personnel in Compensation, Pension and Education. This will require an additional $5.8 million.

DEPARTMENT OF MEDICINE AND SURGERY

The American Legion believes the Veterans Administration medical care program budget has to be maintained at sufficient levels to ensure the provision of high quality patient care. Unlike the direct benefit programs which are statutory in nature, the medical care program funding level is not arrived at through objective criteria. The strength of the medical care program depends entirely upon the adequate appropriation of funds by Congress. Unfortunately, the Veterans Administration medical care budget has only witnessed an increase in actual dollars versus constant dollars in recent years.

The FY 1989 medical care budget provides for treating roughly 1.2 million inpatients and for 23 million outpatient visits. The medical care budget authority of $10.3 billion represents 38 percent of the FY 1989 appropriations request. This percentage is unchanged from FY 1988.

For the first time the budget year pay raise is projected within the Administration's request. The budget funds the proposed two percent pay increase for FY 1989 in each account at the absorption rate assumed in recent budgets. While at first glance it would appear the Administration's requested increase of $208 million above the FY 1988 level for medical care is generous, close examination shows that roughly 96 percent of this increase will be absorbed by inflation, payroll increases and related changes. Upon further examination of the FY 1989 medical care budget we must comment on other serious reservations.

Again, as in past years, the Department of Medicine and Surgery is being asked to absorb a one percent productivity reduction and also to lower staff to patient ratios. These actions project to a net savings of $192.7 million and a reduction of 4,270 FTEE during FY 1989. We commend the Administration for proposing to expand funding and staffing to increase extended care programs and to support new facility activations. However, rather than proposing additional appropriations to support new initiatives, it appears a stratagem of cost shifting is being employed to achieve the desired outcome.

We are concerned that total Department of Medicine and Surgery employment levels continue to decrease while overall actual workload figures rise. Direct care employment levels are projected to decrease by 1,191 FTEE in FY 1989. Also, administrative and ancillary FTEE levels are projected to decrease.

While there are projected FTEE increases designated for Intermediate and Nursing Home Care, all other acute care employment levels are projected to decrease. The workload data from other inpatient functions does not suggest the acute workload level will decline commensurately with the loss of direct care FTEE. In the best of times the acute care staff to patient ratios are marginal.

We support the Veterans Administration's efforts to reduce costly inpatient care by developing alternative hospital programs, and this is addressed in detail later in this statement. The development of additional nursing care beds through new construction or by the conversion of hospital beds is commendable. We caution, however, that to permanently reduce acute care medical beds may precipitate a future shortage of beds for this level of care. The proposed budget reflects a loss of 1,258. As is customary, acute care beds are usually the entry point for long-term care. Also, the Veterans Administration is the primary back-up to the Department of Defense contingency planning, as mandated by Public Law 97-174.

In the opinion of The American Legion, further reductions in staffing and acute care bed levels will result in irreversible damage to the VA medical care system and the erosion of the quality, quantity and timeliness of medical care that is provided to this nation's veterans.

The Administration's FY 1989 budget proposes decreases of $4.7 million and 79 FTEE in the Readjustment Counseling Program which is carried out through 188 Vet Centers. These resource reductions will result from a gradual phasing down of the Readjustment Counseling Program according to the budget language. The American Legion supports a continuation of the Vet Center Program, contingent on a plan wherein decisions on assimilating the Readjustment Counseling Program into the VA medical centers, will be made on a case by case basis, as the utilization of services diminishes. The nationwide workload totals for the Vet Center Program in FY 1987 show the highest levels for new veteran clients and total cumulative visits since the inception of the program. Therefore, we adamantly oppose the idea of reducing the funding or the employment level.

The American Legion commends the establishment and funding of a VA Homeless Veterans Program during FY 1987-88, made possible by Public Law 100-71. Of the $20 million in funding obligated for this program in FY 1988, a total of $15.5 million was programmed for the operational expenses of patient care in VA domiciliaries and community-based residential care facilities, and $4.5 million is planned to convert existing, underutilized VA hospital beds to domiciliary beds. The American Legion is concerned, however, that the resources necessary to maintain the Homeless Veterans Program in FY 1989 and beyond will be funded within the overall medical care base budget. Obviously, in order to continue a program of any magnitude, it will require additional recurring resources.

The VA is in the process of establishing four specialized Acquired Immune Deficiency Syndrome (AIDS) treatment centers beginning with FY 1988 resources. This action can effect cost-efficiency and help to promote necessary specialization for the treatment of AIDS. We caution, however, this program also will require annualized funding.

A net decrease of $34.4 million is projected in the medical care capital investment program for FY 1989. In order for the VA medical centers to provide high quality patient care, adequate medical technology and Automated Data Processing (ADP) needs must be met. We urge this Committee to ensure that sufficient funding is provided to the VA's Department of Medicine and Surgery so that a proper capital investment program is maintained.

Adequate funding of education and training programs is a key ingredient to maintaining high quality health care. We are appreciative to note the Administration has requested an increase of funding and FTEE levels to support this aspect of the VA's mission in FY 1989. Also, we are supportive of a proposal to increase tuition support funding for VA health care personnel and to continue the Health Professional Scholarship Program. These initiatives will help support the recruitment and retention of scarce allied health personnel, particularly nurses.

The VA medical care budget for FY 1989 represents an increase of $208 million above the previous year's level. Mr. Chairman, we are concerned that the medical care program continues to expand and acquire new responsibilities while the medical care program budget continually diminishes in constant dollars.

The American Legion fully supports and encourages the VA to ensure that its medical care programs keep pace with the needs of the aging veteran population and also meet the spectrum of needs of the rest of the veteran community. In order to do so, we believe that annualized funding increases are necessary to offset the development of new medical care programs and for the continuation of previously established programs. Also, we believe employment levels must be maintained in sufficient strength to properly fulfill the health care mission of the Department of Medicine and Surgery. We are pleased to see the modest emphasis on an expansion of extended care programs for FY 1989, as well as the activation of new initiatives. A primary concern, however, is the fact that most new FY 1989 medical care initiatives will be accomplished through a redistribution of the proposed budgetary authority, rather than from new resource support.

Medical and Prosthetic Research

An increase of $11.3 million in research funds is projected for FY 1989, up to $204.2 million.

It should be noted, as described in the budget document this appropriation provides funding for program activities in the following areas:

Medical Research: Efforts in this area fall into two broad categories: research on medical, dental and psychiatric problems that are specific to the veteran population (spinal cord injury, Agent Orange, etc.); and research on general health problems that are particularly prevalent among veterans (e.g., alcoholism, aging and schizophrenia). Most of the investigators are VA clinicians and the close links between the research and patient care functions give the research program a clinical orientation that is directly related to its goal of providing quality medical care to the veteran patient.

Rehabilitation Research: This program focuses directly on the needs of the veteran who is functionally impaired as a result of amputation, paralysis or the loss or impairment of his or her vision, hearing or speech. The latest computer and other technological advances are used to develop devices, techniques and concepts in rehabilitation that will minimize the disability and promote functional independence among disabled veterans.

Health Services Research: The goal of this research is to improve the effectiveness and efficiency of the Veterans Administration's health care delivery system. Health services researchers develop and disseminate information designed to help clinicians, investigators and administrators select medical interventions and administrative actions that are most appropriate to the Agency's mission, which is the provision of quality medical care services to the veteran patient.

The Veterans Administration's Medical and Prosthetic Research program is a matter of particular interest to The American Legion, as a result of our sensitivity to the importance of research in the triad of the VA health care program: clinical care, education of health manpower, and research. These three functions cannot thrive independently - the presence of the other two is required. It would be impossible for the Veterans Administration to continue the provision of high quality medical care without a strongly funded research program. As this Committee knows, much of the research in which VA engages is basic research that is advantageous not only to veterans, but is of direct benefit to all mankind. Equally as important is the fact that a strong research program ensures the recruitment and retention of high quality physicians into VA service.

Average employment reflects losses of 95 FTEE in medical research and 15 FTEE in health services research, and no change in rehabilitation research, for a total of 4,407 FTEE. Available information does not reflect how these losses are to be accomplished. However, we are concerned, as we maintain that there is a need not for a reduction, but for an increase in available personnel for VA research activities. The Federal Government could make no wiser an investment than ensuring a vigorous and viable VA research program that benefits the entire American people.

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

An increase of $1.7 million, to $42 million is proposed for grants for construction of state extended care facilities.

The American Legion is extremely aware of the importance of the services provided by state homes, in that they have substantially reduced the burden that otherwise would have been borne by the Veterans Administration. As of January, 1988, 35 states had established state homes. Since some states have more than one home, there is a total of 52 homes and 3 annexes. During FY 1987, the state homes maintained an average daily census of 8,561 nursing home, 4,117 domiciliary, and 487 hospital patients.

The FY 1989 request will provide for five projects which will produce 732 nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects in five states.

Mr. Chairman, we note that proposed legislation is being considered that will increase per diem rates for state home care. Almost $19 million have been identified as the total resources required to complete this action. The American Legion fully supports this increase, as we are mandated under Resolution No. 195 of the 1986 National Convention, to support an annual review and revision of the rates of reimbursement by the Veterans Administration for the care provided veterans in state veterans homes.

The last increases in per diem rates were set forth in P.L. 98-160, effective April 1, 1984. We are aware that 38 USC 641(c) currently requires the Administrator to submit a report every three years to the Committees on Veterans Affairs on the adequacy of the per diem rates payable to each state for domiciliary, nursing home and hospital care for each veteran receiving such care in a state home. The American Legion believes that the fair sharing of the cost of providing extended care for elderly and disabled veterans will encourage states to meet the needs of the aging veteran population, and we urge that the per diem rates be reviewed, keeping in mind that they have not been increased for four years.

The American Legion considers this program a wise investment, and when considering the ongoing efforts to reduce Federal spending, the role of the state homes is even more significant. As we move into the period of an aging veteran population that will be with the nation for the foreseeable future, the states can be of major assistance to the Federal Government in caring for this population through state extended care facilities. However, in order to materially ease the pressure on the VA, adequate funding must be provided to the states so that proposed projects may be completed.

Grants To The Republic of the Philippines

The budget message provides a grant of $500 thousand to the Veterans Memorial Hospital in Manila to replace and upgrade equipment and to rehabilitate the plant and facilities. This grant has been made by the United States consistently since the end of World War II. The Veterans Memorial Hospital cares for many Filipino veterans who served in the Allied cause during WWII. There is certainly an obligation by this country to continue to show our gratitude and concern for them. The American Legion continues its support for this grant.

CONSTRUCTION PROGRAMS

The budget proposal recommends a decrease in the VA's construction programs of close to $22 million, down to $500.6 million. Replacement and modernization of exisiting facilities is funded at $127.9 million for FY 1989. This level is in contrast to more than twice that amount in FY 1987 and a reduction of $62.3 million from the current year level. No money will be reprogrammed from the major working reserve.

Mr. Chairman, we believe specific sections of the Administration's construction proposal require further comment.

For the first time the Veterans Administration proposes changing the minor construction cost limitation from less than $2 million to less than $3 million. Correspondingly, the major construction account would fund projects costing $3 million or more. Initially, we believe this change could improve the method by which minor construction projects are obligated, by lessening the degree of preliminary oversight and by reaching contractual awards more readily.

The Administration's budget request provides $367.8 million for major projects, $123.8 million for minor projects and $9 million for the parking garage revolving fund.

Among the major medical construction projects for which funding has been requested is a medical center modernization project at Newington, CT; a replacement medical center at Pittsburgh, PA (Aspinwall Division); clinical improvements and a Mental Health and Behavioral Sciences Center at the Indianapolis, IN VA medical center; a clinical addition and parking garage at the Atlanta, GA VA medical center; and a 600-bed replacement domiciliary at the Mountain Home, TN VA medical center.

Other significant major construction proposals include a 120-bed nursing home care unit addition at the Tampa, FL VA medical center and clinical improvement projects at the following medical centers: Beckley,WV; Nashville, TN; Perry Point, MD; and a new 30-bed spinal cord injury unit at the San Antonio, TX VA medical center. Major renovations and fire and safety improvements are proposed for VA medical centers at Montrose, NY and Leavenworth, KS. Funding for the relocation of the Montgomery, AL Regional Office to agency owned grounds is also proposed.

The American Legion supports all of the above mentioned construction projects and we also realize there are many more projects urgently needed throughout the Veterans Administration system. As we have said many times before, the capital plant of the VA system is a multi-billion dollar investment by the Federal Government, and it must not be allowed to deteriorate.

While we are appreciative of the VA providing grants for the expansion of state home extended care facilities as discussed before, we must again express our concern that the VA must also expand its independent nursing home care unit construction. The proposed 120-bed nursing home addition at the Tampa, FL VA medical center, while badly needed, will not appreciably lessen the demand for this level of care in that state. New VA nursing home care unit activations, through new construction and by conversion of underutilized hospital bed space, in conjunction with state home programs, will all be required to provide long-term care to increasing numbers of eligible aging veterans.

DEPARTMENT OF MEMORIAL AFFAIRS

The proposed funding for the Department of Memorial Affairs reflects a modest increase of $299,000 above the 1988 current estimate. The projected average employment for FY 1989 is 1,203, which maintains the 1988 current estimate level.

Over the years, complaints from our field offices, directed at the Department of Memorial Affairs, have been minimal. As of late however, we have been informed by several of our Department Service Officers of delays within the headstone and marker program. Our review of the situation has revealed that some of the factors that have played a key role in the delays are temporary such as the ongoing conversion to computerization within the program. However, we also find that over the past dozen years or so, the workload has almost doubled, while allocated resources have not kept pace with this growth. Should this trend continue, as projections show that it will, more serious repercussions and delays will be realized across the system. According to VA's recently submitted Report on the National Cemetery System, there were to be an estimated 426,800 veteran deaths in 1987, increasing to over 610,000 in 2010. Annual interments are expected to reach about 86,500 in 2010. Based on these statistics alone, it is clearly evident that the Department of Memorial Affairs will encounter extreme difficulty maintaining the quality of service presently provided, without a substantial increase in personnel and funds.

The State Cemetery Grant program is a Federal grant program administered by the VA Department of Memorial Affairs to aid states in the establishment, expansion and improvement of veterans' cemeteries. Public Law 95-476 authorized this program.

The primary purpose of the program is to assist the states to provide gravesites for veterans in those areas where national cemeteries cannot fully satisfy the burial needs of veterans. The program is intended to complement the VA National Cemetery System. The VA provides up to 50% of the costs associated with the development, expansion or improvement of a state-owned veterans' cemetery.

For the last two years, VA has not requested additional resources to support this program because carry-over money has been available. Funds allocated to this program can be carried over for three years.

This year however, the Department of Memorial Affairs has identified requests for funding from various states which total almost $12 million, thereby fully justifying the $9 million included in the budget proposal to support this program over the next three years. The American Legion recognizes the importance of this program, and fully supports the $9 million proposal.

VA HOME LOAN PROGRAM

Mr. Chairman, we certainly share the concern of the Committee over the apparent hemorrhaging of the Loan Guaranty Revolving Fund (LGRF), which since 1984 has required appropriations to remain solvent. Fiscal years 1988 and 1989 will require the largest appropriations in the history of the program, at $389 million and $658 million respectively. From these numbers, the program appears to be sinking ever deeper into a financial morass. Certain features in the budget, however, we believe will exacerbate the problem, rather than begin to resolve it.

For example, the President's budget proposes to conduct a sale of virtually the entire remainder of the Direct Loan portfolio held by the VA, thus eliminating entirely the availability of whatever income is received in this program for use in offsetting deficits in the LGRF. We believe this is the last installment in a series of unfortunate decisions which have placed the short-term cash advantage of such portfolio disposal, over the long-term income needs of the home loan program.

We note also that in the face of the need to aggressively market outstanding inventory, as well as to provide services such as foreclosure counseling that have been mandated by P.L. 100-198, the proposed budget actually would eliminate 75 positions from the Loan Guaranty Program reducing overall staffing from 2,100 to 2,025 FTEE in FY 89. This reduction comes upon a 25 FTEE reduction for FY 88. We believe this is a poor, not to say premature, managerial decision, and recommend its rejection.

As a final, rather bizarre, twist to the depressing news this budget brings, the Administration will request legislation to "reform" Federal credit. This legislation will supposedly calculate in dollars the benefit granted by the Federal Government in each of its credit programs and deposit such a sum for each transaction in the Treasury. As we understand this measure, the dollar value of the benefit which the home loan program grants to veterans is estimated to be 6.6% of the loan principal. It appears as if this fund will eventually replace the Loan Guaranty Revolving Fund--and indeed all similar funds--

as the source of revenue to settle claims, manage property, and acquire homes. This proposal raises many questions. What authority, for example, would this legislation give the Treasury over program policy? We suspect that Treasury could conceivably be put in the position of dictating program operations to the VA. Equally as important, we are not so naive as to believe that the Federal credit "reform" legislation would represent merely a transfer of pay out authority. Instead, it would appear to us that the Federal credit programs involved are being targeted for abolition by those elements in the Office of Management and Budget who believe that the Federal Government does not belong in the credit market under any circumstances. Certainly, the high potential cost of this legislation would form a strong justification for eliminating programs such as Loan Guaranty. While all of us are agonizing over a $685 million appropriation for the LGRF in 1989, the Administration's proposal would add another $1.3 billion to the cost of the program--and that is only in the first year. The most charitable interpretation we can render of this proposal is that it constitutes an extremely costly form of mortgage insurance. The American Legion thus strongly opposes this or any other legislation which would remove, or have the potential of removing, the home loan program from the control of the Veterans Administration and oversight of the Veterans Affairs Committees. In addition, if the Administration is interested in spending an additional $1.3 billion, we can think of far better ways to use that funding to stabilize the LGRF.

Quite obviously, reducing the cost of the VA Home Loan program, and stabilizing the LGRF is a high priority for the Committee, the VA and The American Legion. It must first be recognized, however, that there is no quick fix to the problem. We congratulate the Committee for the initiative it has shown in the development and enactment of P.L. 100-198, which attempts to come to terms with the problem. We will not, however, see the benefits of this legislation or its immediate predecessors, for several years. The home loan program is still paying for the high inflation, high interest rates, and related ancillary problems which had their origin early in this decade.

The American Legion believes that addressing the financial problems of the Home Loan Guaranty program requires two approaches. The first, attempting to tighten and improve underwriting within the agency, has been the focus of the Congress's efforts over the last several years. As we have indicated, the results of these efforts are not likely to show up immediately since foreclosures resulting from loans tendered in previous years under different conditions are still very much with us. Congress has also attempted to improve the VA's marketing of properties which we believe has improved the agency's inventory generally. Yet, the collapse of oil prices has led to severe real estate price deflation in areas such as Texas, Oklahoma, Louisiana and Colorado, so that fully 40% of the agency's total inventory of properties at the end of 1987 was concentrated in just these four states. It has been suggested that the VA should acquire foreclosed properties only if loss on such properties is less than if the agency simply were to pay the guaranty. That appears to make good financial sense to us. What concerns The American Legion, however, is the effect such policy might have upon the future availability of credit in economically depressed areas. We might suggest that as a corollary to such policy, the Committee might want to examine the feasibility of opening up the Direct Loan program to accomplish its original intent: to make available loans in areas where credit for VA guaranteed loans is not available.

This brings us to the second approach to dealing with the growing cost of the Home Loan program which we believe deserves serious study. The demise of the Direct Loan program, and the sale of its portfolio over the years has all but dried up a valuable internal revenue source for the Home Loan program as a whole. The American Legion notes that in the report of this Committee's hearing of February 29, 1984 on Housing Issues and the solvency of the Loan Guaranty Revolving Fund, the Committee states that, "the source of the current solvency crisis facing the program is not simply the existence of deficits--for it is clearly in the nature of the program to operate at a deficit--but rather the drying up of the traditional source of funding these deficits...this source of funding is now virtually exhausted."

If it is acknowledged that the Loan Guaranty Program is designed to operate by its very nature at a deficit, and if the Direct Loan program no longer has the resources to offset such a deficit, it seems to us that Congress has two choices--either accept the need for continuing appropriations for the program, or begin reestablishment of a revenue source which could, within perhaps seven to ten years, supplant the need for general revenues to support the program. A moment ago, we suggested opening up the Direct Loan program in areas which become credit short as a result of the VA's determination that it is in the best interest of the solvency of the program to pay off the guaranty, rather than acquire the property for resale. We believe that a revenuegenerating portfolio could also be built with vendee loans which are retained by the agency, rather than sold. While this course of action obviously has budgetary implications over the short-term, we believe that it represents a serious long-term alternative to the program's financing problems. In any case, it would most certainly be less costly than the Administration's Federal Credit Reform proposal, and merits serious study.

DEPARTMENT OF LABOR PROGRAM BUDGET

Turning to the Department of Labor, you are probably aware, Mr. Chairman, that H.J. Res. 395 had the effect of mandating an across-the-board reduction of 4.26% in all of the Department of Labor's programs during FY 1988. Despite our work with this Committee and the Appropriations Committee during the 1988 budget process to assure that veterans employment programs were funded at $145.8 million, these programs were ultimately forced to operate at a level of $139.5 million. The American Legion has often testified that we would not oppose budgetary restraints on veterans programs provided that such restraints were fairly applied to all Federal programs. In the case of the Labor Department programs, the 4.26% reduction does indeed appear to have been applied uniformly. The consequence of this cutback on veterans' programs, however, has taken an unusual twist. The Solicitor of Labor ruled recently that the Department-wide reduction could not apply to the Disabled Veterans Outreach Program (DVOP), since the number of positions to be funded by the Department were determined by formula in statute. Since the veterans program function itself was still subject to the 4.26% cut, however, funding for the Local Veterans Employment Representative Program was required to absorb its own reduction, as well as the reduction in funding which would have otherwise been applied to DVOP. This has translated into a cutback in the number of LVER base positions from 1,379 in 1987 to 1,252 in 1988 and 1989, or about 9%.

This development is particularly ironic in light of the hard work that this Committee performed last year in the creation and passage of S. 999, which would establish in law a formula for determining the number of LVER positions. According to both S. 999 and its House counterpart, the position strength of the LVER program would be established at approximately 1600, or 348 more positions than either the FY 1988 or proposed FY 1989 budgets will fund. Yet the LVER program is faced with reductions owing to the failure of Congress to pass a conferenced version of these measures. While The American Legion recognizes how demanding the press of other business has been on Capitol Hill for the last six months, we are concerned that time is running out for S. 999 to have an impact on either the FY 1988 or 1989 budgets. As a consequence, the LVER program is facing the prospect of major staff reductions, and FY 1989 funding for the National Veterans Training Institute is in doubt.

We also note that the VA's budget for FY 1989 contains no funding request for the Veterans Job Training Act, which under current law will expire in June of this year. S. 999 will provide for a multiyear operation of the program.

The American Legion therefore strongly urges the Committee to promote final action on S. 999 in sufficient time to impact the FY 1989 budget.

The funding difficulties in the LVER program are not the only obstacles faced by veterans in the Employment Service System. The proposed budget for regular Wagner-Peyser grants for FY 1989 would reduce ES funding from $723 million in 1988 to $678.5 million in 1989. This cutback comes on top of a reduction in Wagner-Peyser grants from their current Program Year 1987 level of $755.2 million. In actual dollars, Employment Service funding over a two-year period is being cut by 10 percent. This reduction is further compounded by an increase in salaries and benefits of four to six percent, mandated by state legislatures, and inflation increases in rents, telephone, and other services. Mr. Chairman, the efforts of the Congress to improve services to veterans under S. 999 will be counteracted by reductions in base funding of the Employment Service System. For better or worse, the ability of the Job Service to serve veterans depends on the overall integrity of the system itself. As you know, the Employment Service, including the LVER and DVOP programs, as well as the operation of the Office of the Assistant Secretary for Veterans Employment and Training, is financed by Federal Unemployment Trust Fund Act (FUTA) monies. The Department of Labor estimates that the FUTA fund will have a surplus of $1.5 billion by the end of FY 1988. These monies cannot be used for anything other than Employment Service/Unemployment Insurance activities.

We therefore ask that the Committee work with your colleagues on the Labor and Human Resources Committee to assure that further disintegration of the Employment Service is not allowed to occur.

CONCLUSION

Mr. Chairman, in this statement we have set forth for you and the Members of the Committee, the earnest opinions and positions of The American Legion on a variety of subjects that are included in the Administration's budget proposal for FY 1989 which we consider to be of special importance to the nation's veterans. We have addressed those programs we believe to be of highest priority in an agency whose activities are all of high priority, because they are intended to meet the needs, first of those who were disabled in war service, and then the reasonable needs of all those who served honorably when called to do so by this nation.

The proposed Veterans Administration budget for FY 1989 reflects an increase over the funding for the current fiscal year. However, it also contains some serious shortfalls.

For some reason, unknown to us, little if any attention is being focused on the impact that constant staffing reductions in the Department of Veterans Benefits is having on the quality and timeliness of the delivery of benefits and services to veterans. Amid lawsuits, complaints by veterans and service organizations, figures reflecting a deterioration of timeliness and a myriad of other negative factors, the Office of Management and Budget continues to chip away at the employment level of DVB.

Likewise, it is necessary to state again this year that the FTEE reductions in the Department of Medicine and Surgery are going to result in the erosion of the quality of medical care that is being provided American veterans. The number of health care professionals in the system simply cannot continue to be reduced.

The American Legion appreciates this opportunity to present its views on the FY 1989 budget, and we trust that the Committee will examine and consider the problem areas we have identified. We have commented specifically on those areas in which we feel there are the most glaring problems, and we have responsibly addressed each of the legislative initiatives with respect to the concerns of The American Legion.

Mr. Chairman, that concludes our statement.

THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

Statement of
Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Committee on Veterans' Affairs
U.S. House of Representatives

on the

VA Budget Request
FY 1989

March 3, 1988

NATIONAL CAPITAL OFFICE
225 N. Washington Street • Alexandria, VA 22314 • Tele: (703) 549-0311

The Veterans Administration budget proposal for Fiscal Year 1989 is viewed by NCOA as generally inadequate to meeting the needs of veterans and the Nation. As it is currently structured, it does not even provide "current services" in some programs. Underlying the inadequacy of the proposal is a major policy failure inherent in the Administration - lack of foresight. The proposal is void of anticipation to meet the needs of veterans in the future. It is a one year budget, unimproved by hindsight, and unencumbered by reality.

It would be impossible to comprehensively discuss every aspect of the proposal. However, listed below are some major program aspects which demand attention.

Burial Benefits

The Regional Cemetery concept must be expanded and augmented by a series of cemeteries proximate to major population centers if this program is to continue to provide reasonable access to burial in a national cemetery to veterans. Regretably the budget proposal does not provide for any expansion of the cemetery system beyond adding 90,000 gravesites at Calverton, New York. This nearsighted policy means fewer than 40 percent of the Nation's veterans will live within a 50 mile radius of reasonable access to a national cemetery. Yet, the Administration proposes to eliminate the burial plot allowance for all but disabled veterans beginning in 1989. This equates to something of a "double-whammy".

As stated in previous testimony, NCOA believes the VA should begin land aquisition and planning to acquire cemeteries in ten major population centers defined in last year's cemetery study not currently served by regional cemeteries. Such aquisitions would make burial space available to nearly 70 percent of the Nation's veterans. NCOA also believes legislation regarding elimination of the burial plot allowance should be rejected, particularly in the absence of reasonable access to a national cemetery.

Instead, the VA should be budgeted and directed on a course to preserve the national cemetery system by providing reasonable expansion in the program.

Compensation and Survivor Benefits

The Administration budget proposal seeks a 4.2 percent cost-of-living increase in disability compensation and survivor benefits effective December 1, 1988. It also asks for legislation to "index" increases in these programs. NCOA fully supports a cost-of-living adjustment in these benefits consistent with measured increases in the Consumer Price Index. However, NCOA is reluctant to support legislation "indexing" or providing for the automatic adjustment of compensation programs.

Currently, the annual congressional review of compensation and survivor benefits prompted by the need for legislation to adjust pay levels assures that the programs will also receive comprehensive review. Congressional willingness to undertake this annual review assures NCOA that disability compensation and survivor benefits will not be allowed to suffer in the absence of legislated automatic increases. Thus, NCOA believes the benefits of annual review outweigh the benefits if indexing.

This year NCOA is hopeful such annual review will lead to the adoption of Representative Mike Bilirakis' bill H.R. 303 providing for the concurrent receipt of nondisability military retired pay and veterans disability compensation. NCOA is also hopeful the committee will review the distribution of benefits in the DIC program with an eye toward compensating all surviving spouses equally. Both of these are issues of equity which should have been addressed years ago.

Education

Unfortunately the budget does not address any necessary or badly needed improvements in VA education programs. While none would be terribly expensive, they have nevertheless been overlooked.

NCOA continues to believe the pay forfeitures required for participation in the Montgomery G.I. Bill should be eliminated. Such charges only serve to discriminate against those who might benefit the most from participation in the program but who by circumstance are financially unable to participate. However, if such fees must be retained, NCOA believes their impact should be reduced by spreading out contributions over a longer period of time and by making the benefits refundable at least to those servicemembers who are unable to use the program because of death or disability. NCOA is also hopeful the benefits of the Montgomery G.I. Bill will be extended to servicemembers who are forced by service personnel policy to retire between July 1, 1985 and June 30, 1988. Through no fault of their own, and despite a willingness to continue to serve, many career servicemembers will lose their opportunity for post-secondary education because they have been caught in a vacuum between the Vietnam Era and Montgomery G.I. Bill.

Additionally, NCOA is compelled to remind the committee that benefits under the Vietnam Era G.I. Bill and the Vocational Rehabilitation Program have not been adjusted since October 1, 1984. At that time, rates were increased by 10 percent over levels set in 1981. Meanwhile, Congress has appropriated billions of dollars in support of non-veteran education programs. NCOA is hopeful these programs will be reviewed this year and that benefits will be increased to restore their value to program participants.

Job Training

Again this year the budget request excludes funding for the Veterans' Job Training Act. However, this program has been responsible for the successful placement of nearly 17,000 veterans in full time skilled employment and has provided some training to more than 33,000 veterans. By comparison with similar efforts the program has been a tremendous success. Accordingly, NCOA believes legislative authority and funding for the program should be extended through FY 1989.

Additionally, NCOA proposes a limited legislative and budgeting authority for a test program of tailored employment benefits. Too often unemployed veterans who are willing and able to work are denied necessary job training or assistance because they fall into a void between program eligibility criteria. As envisioned by NCOA, a discretionary employment and training account could be established to provide veterans employment representatives an opportunity to tailor training needs to individual veterans. If such a program is successful it could sound the death knell for other more limited programs and the burdensome administrative support necessary to their continuation.

Loan Guaranty

Perhaps the most disappointing portion of the budget proposal concerns the VA Home Loan Guaranty Program. Clearly this program is among the most valuable VA programs, not just to veterans, but to the Nation for its trickle down economic benefits. Yet an almost criminally poor policy and management of the program have led it to near ruin. And, the current Administration's obsessive facination with divestiture and privatization threaten to push its recovery out of reach. Furthermore, NCOA believes this responsibility can be laid clearly at the door of the Office of Management and Budget which has continuously directed adverse changes in the loan guaranty program.

This year the Administration has once again proposed negotiated rates for VA loans, the without recourse sale of loans ($780.7 million net in 1989) and a divestiture of $861 million in portfolio assets. NCOA continues to oppose negotiated rates. Such an action would be a gift to mortgage lenders and could increase the exposure of the VA on defaults since guaranty payments are in part based on accumulated interest from time of default. It should also be remembered that fixed VA interest rates are the only benchmark by which both lenders and homebuyers can measure rate competitiveness.

Without recourse loan sales, and, in fact, loan sales in general are a bad idea. The Administration insists on such sales for two reasons. Foremost, there is a desire to produce short term income. Second, the privatization obsession dictates that profit making enterprises should be sold to private industry. Such logic is misguided at best.

Such sales and divestiture from a government perspective mean only the sale of self-sufficiency in the program. The VA recently announced it had sold $219.3 million in loans for $220.5 million. The margin by measure was .54 percent above par. The monthly income from those loans averaged .79 percent. In other words the VA sold a thirty-year monthly income of more than $1.5 million for a one time profit of $1.2 million. Such a sale might make some modicum of sense in private industry if the profit were rolled into an income producing investment, but it hardly makes sense to government. Such sales and divestiture from a government perspective mean only the sale of self-sufficiency in the program.

NCOA urges the reconstruction of the VA Home Loan Guaranty Program. Rebuilding the portfolio can eliminate the need for fees charged to veterans, can mitigate the worries of holding a large foreclosure inventory and can eliminate the need to steal profit from the unfortunate veterans through such devices as "net value" equations in foreclosures. (The net value equation allows the VA to keep 10.75 percent of the value of any home at foreclosure plus any other costs owed by the veteran even though veterans pay a funding fee to protect against these costs.) It will take several years to accomplish, and it will take substantial budget authority and appropriations, but it took several years to create the problem. The loan guaranty program cannot be repaired overnight, but a sure, permanent and perpetual fix is available. With patience and appropriations the assets of the fund can be increased to a level at which income will once again exceed outlays.

Insurance Programs

NCOA recommends that amounts of insurance available through SGLI and VGLI programs be reviewed and increased to more adequately meet the needs of veterans. It has been two years since the current maximum coverage amounts were established. Yet these rates have already been overcome by inflation.

Additionally, NCOA is pleased to recommend that military retirees subject to recall be allowed to retain VGLI on the same renewable term basis and for the same reasons as members of National Guard and Reserve components. Military retirees are a valuable national security asset. Since VGLI benefits are fully premium supported this is an excellent opportunity to provide a no-cost benefit to deployable retirees.

Medical Care and Construction

It would be difficult to convey in a reasonable period of time all the disagreements NCOA has with the medical care and medical construction proposal.

The VA should have begun a program of building the medical care system several years ago. Instead, it chose a course of maintenance. Now, the system is at best marginally equipped to meet the needs of veterans and, by projection, will not be able to keep up with the increasing demand for service, particularly from an aging veteran population.

The system must prepare to meet the geriatric care need of more than 7 million veterans who will be 65 years of age or older in 1990. That's more than twice the number of veterans over 65 in 1980. Nursing care demand can reasonably be expected to increase by 3,500 beds in the next four years yet the budget proposes the construction of only one 120 bed new nursing home.

The system also now faces the additional stress of providing AIDS treatment and research which is consuming even larger portions of the budget. Yet, rather than seek altogether new funding to meet this new demand, the budget proposes to rob part of these costs from other care and research programs.

Altogether, medical care is down $370 million from a current services level. This is hardly a competent proposal to meet the medical care needs of veterans.

Consistent throughout the medical care and construction budget is a lack of planning for future needs. The budget also totally ignores the national emergency role of VA medical facilities. NCOA urges the committee to increase medical care spending to at least a current services level or, more desirably, to a level which allows real growth in the program.

Staffing

As always, the budget proposes staffing reductions to achieve budgetary savings. Notwithstanding increasing medical care demands the budget proposes to eliminate 1,782 medical personnel. Even with complaints about delays in claims adjudication the budget proposes to cut 248 claims processors. And, in spite of the obvious problems in the home loan guaranty program, the Administration wants to cut 75 loan guaranty employees.

Unfortunately, there are no good guidelines on staffing at the VA. Yet it is obvious that such personnel cuts will adversely impact on services in both timeliness and availability. In view of the growing demand for VA services, NCOA must oppose staffing cuts.

Conclusion

As previously stated, NCOA believes the VA budget proposal is inadequate to meeting veterans needs. The most seriously deficient areas of the proposal are in the medical care and loan guaranty programs. However, there is a general deficiency in policy evidenced throughout the document. It does not plan for the future.

Furthermore, NCOA believes much of this proposal is the product of OMB budget cutting decisions that would have been made differently if they had been presented to the President by a member of his Cabinet. Almost as if planned, this budget provides an eloquent argument to have policy decisions regarding the VA elevated to Cabinet status. NCOA is hopeful that Congress will move quickly to establish a Department of Veterans' Affairs in hopes of preventing the submission of such an inadequate budget proposal next year.

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STATEMENT OF

VIETNAM VETERANS OF AMERICA

Presented By

THOMAS A. SHERWOOD
DIRECTOR OF HEALTH POLICY [illegible] PLANNING

and

PAUL S. EGAN
LEGISLATIVE DIRECTOR

before the

HOUSE COMMITTEE ON VETERANS AFFAIRS

on

FISCAL YEAR 1989 BUDGET
FOR THE VETERANS ADMINISTRATION

MARCH 3, 1987

Mr. Chairman and members of the Committee, the Vietnam Veterans of America appreciates the opportunity to present its views on certain aspects of the recently proposed Fiscal Year 1989 budget for the Veterans Administration. The VA budget submitted for Fiscal Year 1989 calls for $30.097 billion in budget authority and $27.9 billion in requested appropriations. By anyone's standards that is an enormous amount of money. The amount of money, however, is not the issue. The more important question is how the money is spent. Generally speaking, the VVA believes this amount of money is adequate to fulfill the agency's mission.

This year, as in each of the last seven years, we fully expect that the Congress will allocate resources for the VA using a different standard of priorities than those incorporated into the Administration's proposal. In this evaluation of the FY 1989 budget proposal, we shall offer comment on several facets of the VA's operation as a way of suggesting specific areas where resources should be focused. This general discussion will be followed by a more specific discussion of the legislation initiatives accompanying the FY 1989 budget proposal.

During fiscal years 1987-1988 VVA has had both the privilege and opportunity to work with the VA in attempting to find ways of improving the quality of care for the veteran. The VVA has worked with the VA on veterans health care issues by contributing significant input on program areas such as staff retention and recruitment, PTSD in the area of clinical and administrative management, DRG's and resource management, Agent Orange (particularly in attempting to get the VA to implement a more meaningful statistical data accumulation system at the medical center level), support for the Veterans Outreach Centers as an instrument of alternative care for which the veteran continues to express a great need, the strong and involved support for the Decentralized Hospital Computer Program (DHCP), Quality Assurance, initiatives in AIDs care for veterans, the Pilot Program on Hospital Management Efficiency, and organizational health care systems especially regarding the need to decentralize to name a few.

In many respects the VA health care system has gone forward in attempting to create alternative and meaningful health care. The providing of appropriate medical and psychiatric care for the homeless and placing them in community residential treatment settings in 43 communities is an example of one such program. The VA also appears to want to participate in joint ventures. For example, the VA/Air Force Joint Venture Hospital Resources Demonstration Project in Albequerque, New Mexico will not only expand health care options and horizons for the veteran but bring about a less costly health care system to the taxpayer without sacrificing the quality of care to the veteran. The VVA supports these efforts and all such efforts which will give the veteran the best opportunity to receive appropriate, efficient, courteous, and quality care. For FY 1989 there still will continue to be many vital health care issues that significantly impact on the veteran. The VVA has serious concerns about all of these issues and in this forum, we hope to advise this Committee of those issues which have the most serious implications for Vietnam era veterans.

Readjustment Counseling

The VA indicates that for fiscal year 1989 it will cut the Readjustment Counseling Program by $4.7 million and 79 FTEE. It is clear from the rationale for those cuts that the VA intends to seriously diminish the Veterans Outreach Center Program. It is also clear that the VA is not taking into consideration the clinical needs of the veteran using the program. It is well known by all concerned including the VA, Service Organizations and members of Congress that many Vietnam veterans do not trust the VA Medical Centers and will not go to the Medical Center to obtain the services they need and deserve. Additionally, VA's apparent attempt to institutionalize psychiatric ambulatory care into hospital settings flies in the face of modern psychiatric practice. Even though experts within and outside of the VA are aware of these modern practices, the VA appears determined to subordinate the clinical needs of the veteran to the apparent political needs of its administration. If we care about veterans this kind of interference with accepted clinical practices cannot be tolerated. Finally, if, in a worst case scenario, the approximately $5 million contract budget for this program is cut along with the proposed cut of $4.7 million and 79 FTEE, the approximately $41 million total program budget will shrink to approximately $29 million (estimating the average salary for Vet Center personnel to be about $28,000). This will effectively terminate the viability of the program in spite of a real need.

Moreover, in looking at the 1989 budget estimates for VA Medical Programs, one cannot help but wonder about the following statement under Workload Changes on page 5-3 in the VA's Medical Programs Fiscal Year 1989 Volumn II: "Includes an increase of $7.3 million for community nursing home care, offset by a reduction in the Readjustment Counseling Program of $4.7 million and savings of $9 million related to the elimination of ineligibles from CHAMPVA rolls." Does the VA really want to send a signal to the veteran that Congressionally mandated needed clinical programs are as casually "offsetable" as swaping off one for another?

Agent Orange

There appears to be many divisions among scientists unable to agree consensus on whether there is a cause and effect relationship between the spraying of herbicides in Vietnam and the manifestation of certain illnesses. Millions of dollars by many institutions and individuals have been spent thus far in trying to either establish or disprove the relationship between dioxin and certain illness apparently to no avail. Apart from currently provided VA health care for veterans alleging health problems resulting from Agent Orange exposure and the opportunity to be listed on the Agent Orange registry, no decisions on compensation have been made. The VVA believes it is now time to authorize presumptive status on the Agent Orange issue while allowing a full review and assessment of all the research completed by a neutral third party such as the National Academy of Sciences. Further, the VA needs to begin developing and analyzing the tremendous clinical data base it has accumulated over the years from the many physical exams done and by virtue of the treatment given as a part of its Agent Orange Program. To date, and in spite of the considerable work this organization has done with the VA, the VA has still for whatever reasons been unable to put in place a meaningful Agent Orange program at the medical center level on matters concerning adequate and informed screening or institution of a veteran reception and documentation protocol at the clerk/intake level.

Inpatient Post-Traumatic Stress Disorder (PTSD) Programs

In a recent petition dated February 1, 1988 addressed to the Medical Center Director of the Chillicothe, Ohio VAMC, some veteran patients requested the establishment of an Inpatient PTSD program. Other veterans over time have also expressed what they felt to be a need for additional programs of this type. Currently, there are about 14 Medical Centers with specially designed inpatient PTSD programs involving about 444 beds. This organization as an active participant working with the VA is seriously concerned about the considerable variability among these programs with regard to average lengths of stay (anywhere from one to sixty days or more), the lack of manpower assigned to these programs, lack of clear goals and objectives in some cases, and the need to assure appropriate standards of clinical practice including allowing the veteran patient and relative (or significant other) to participate in the clinical process. The VVA feels there is more than enough documentation to give guidance to the Medical Centers in the management of these programs. We also believe there is sufficient documentation for the VA to determine how great the need for these programs continues to be. The VVA supports the establishment of more of these programs along with an overall improved system of clinical and resource management and we strongly urge the VA to investigate the need for more inpatient PTSD programs as soon as possible.

Mental Health Resources

Dr. Kenneth L. Davis as Chairman and Professor of Psychiatry at the Mount Sinai School of Medicine, and as a staff member at the Bronx VAMC in testifying before this body in 1987 noted that "...on an average day in the first half of 1987, 22,000 of 55,000 inpatients, or approximately 40% of all VA beds were filled by psychiatric patients. Another way to look at the activity of the VA with respect to psychiatry is simply to count the number of inpatients who were taken care of in the first half of 1987, and the proportion of those that had a psychiatric diagnosis. 561,00 veterans received inpatient care in the first half of 1987 for which 108,000 were psychiatrically ill. Thus by this measure of patients, that is independent of lenght of stay, 20% of all admissions to the VA's inpatient units in the last 6 months were psychiatric... In summary, 40% of VA beds are filled by psychiatric patients, they reflect 20% of all admissions and 22% of all outpatient visits." In spite of these numbers, as little as 10% of the VA health care budget has been dedicated to mental health. We need to be assured that the neuro-psychiatric patient receives a fair-share of the quality and quantity of care as reflected in the budget.

The "pull" of the medical teaching affiliation programs is towards acute medical and surgical care perhaps at the expense of both the psychiatric and long term care patients. We recognize that the teaching affiliations are both necessary and importnat and that they do operate in the areas of long term care and psychiatry. However, the VA might at least recognize the broad variability of psychiatric illness with or by the use of more discrete DRG assignments so that the resource needs in this area are more representative.

The Resource Allocation System (RAS)

Here too the VVA has very closely tracked the VA's management of its RAS since the 1987 budget hearings before this Committee. We have noted, regarding the RAS that the VA has moved considerably since then toward educating both the Medical Centers and other interested parties. The RAS has certainly attracted the interest of Congressional arms, such as GAO, especially in areas of mental health resources. We are hopeful this attention will send the necessary signal to the VA regarding the need to make this system more coherent. However, there are still some issues that need to be worked out. The system continues to be overly driven by VA Central Office. There is still little data validation with respect to the information input on the Patient Treatment Files (PTF) which partially drives the RAS. The Medical Center Director and staff still have no sense of "ownership" of the RAS. Some Regions do extremely well in the RAS in terms of attracting and holding dollars. Unfortunately, this is at the expense of other Regions who either may not be as talented or care enough to fight harder for their hospitals. There is still no reliable validation system for the RCS 10-0141 (Staff Resource Allocation Report). Given the size and the centralizating nature of the VA health care system, it may be unreasonable to expect a national current on-line interactive RAS between VACO, the Regions, the Districts, and the Medical Centers. This is especially true considering the large numbers of administrative staff on all levels.

In view of the above concerns we make the following recommendation; the VA should totally abandon the VACO-driven Resource Allocation System. Other than specific guidelines, such as those articulated in the Pilot Program on Hospital Management Efficiency, the VA's role at the National level should be to facilitate the total decentralization of the local Medical Centers. The RAS too, should be developed and implemented at the local level. Unless this change is made, the current system, no matter how much the centralized bureaucracy decentralizes on paper it will continue to centralize. A stronly centralized VA in its current mode can never have the necessary flexibility relevent to a local hospital. Given proper local controls, local hospitals will be better positioned to identify and address local needs. For example, when a given private sector community hospital raises the salaries of its nurses, the local VAMC can never adjust fast enough to keep up. Consequently, some of the urban VAMC's cannot compete for nurses. This is also true for pharmacists, medical records libraians, physical therapists, and even medical record technicians.

State Home Program

The VVA strongly supports the program of Grants for Construction of State Extended Care Facilities. The request of $42 million in Fiscal Year 1989, however, is inadequate. This program has repeatedly demonstrated its value in providing veterans health care at less expense than the same care provided by a VA facility. With several applications for these grants pending, we believe a more prudent request would be for however much is needed to award grants to all currently pending applications.

About three years ago, it will be recalled, the VA adjusted its formula for how health care would be provided to the veteran by emphasizing the private sector and state homes. If the VA is genuienly interested in making such reliance possible, it has an obligation to provide greater resources to the state home program.

Legislative Proposals

The new budget proposal makes two legislative requests regarding compensation. The first of these would afford a 4.2 percent cost-of-living adjustment (COLA). The VVA supports this with the usual caveat that should inflation in the economy be higher than 4.2 percent, the compensation COLA should be upwardly adjusted. The second proposal would index compensation COLAs in the future to the Consumer Price Index (CPI). The VVA opposes this proposal because requiring the Congress to approve a COLA each year affords an annual legislative vehicle for making other important adjustments in veterans programs.

In readjustment benefits the proposed budget recommends legislation to repeal the VA's authority to make education loans. The VVA opposes this. It's interesting to note here that the education case load in FY 1989 for Vietnam era veterans using the GI Bill is expected to decline by 36,535. This means a projected savings of $84.4 million. With cuts proposed in veterans unemployment, cuts proposed in the Vet Center program and substantial savings from education program case load reductions, it appears that this particular budget is weighted against the needs of Vietnam era veterans in favor of the apparent needs of older veterans.

The state home program under this new budget would be recommended for an increase in per diem rates. This proposed legislative initiative is supported by the VVA. Also in the general medical care area legislation will be proposed to expand the authority permitting tuition reimbursement for nurse training in degree course work. Given the shortage of nurses in the VA and the VA's need to compete with the private sector for medical personnel, the VVA supports this proposal.

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March 8, 1988

Chairman G.V. (Sonny) Montgomery
House Committee on Veterans Affairs
334 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Montgomery:

This letter will respond to a question asked on your behalf at the March 3 hearing on the Fiscal Year 1989 budget submission for the VA. At the hearing we were asked to provide a letter describing what we believe to be the most pressing matter facing the VA. While we have selected health care as the most pressing subject, this letter should not be taken to suggest that we subscribe to all other policy choices engendered by this particular budget. We have a great number of criticisms to register, but the health care criticism is the most pressing.

The single most pressing issue involving the VA health care system is the quality of care and the services our veterans receive. The veteran is totally at the mercy of a system too large and too centralized to respond properly by providing adequate health care. The VA health care system is large with power too diffuse to be sensitive to the veteran's individual needs. For any given medical center, the VA health care system is too protected to feel any sense of accountability or responsibility to the individual veteran.

As noted at the budget hearings, the VA in today's complex health care arena cannot possibly manage 172 hospitals from one centralized authority or even seven regionalized authorities. This attempt to manage top-down is having a destructive impact on the quality of care of our veterans. The medical center director is literally torn between VACO, Regional, and even District VA interests. The medical center director by the same token is strapped into the politics of the press, the Congress, the affiliating medical and teaching institutions, and even the veterans groups. In this power field, the director can only react defensively. The individual veteran is the least of concerns in such a field unless he or she happens "to know someone" or is "connected." In short, the veteran for whom this system was allegedly designed has been excluded from it. The medical center director is in fact, because of VACO's dominant role regarding resource allocation, accountable to everyone and therefore to no one. The solution only begins with the following recommendations:

1. Form a board of veteran consumer directors at VA Medical Centers (VAMC). This board should hold the VAMC director directly accountable for the management of the VAMC and the provision of quality service — in all areas.

2. Formulation of a resource allocation system at the medical center level first. The VAMC should justify its programs and program

needs by tailoring its resources to the needs of the veteran in the community in relation to the other services that are, or can be, provided in the total community. This may mean the VAMC will have to contract for some services and/or sell other services to sharing hospitals in that same community.

3. Eliminate the DM&S medical regions. Other than draining much needed resources at the medical center level, and serving as launching pads for internal VA political promotion, these regional offices can and do make little valuable contribution to the well-being of the individual veteran struggling to survive the VA medical center and the VA health care system in general.

Whatever the final solution is as the VA moves into the twenty-first century, it appears at this time to be beyond the current capacity of the VA to deliver quality care.

Sincerely,

Paul S Egan

Paul S. Egan
Legislative Director

PSE/jdw

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

CHAIRMAN MONTGOMERY

Question: (1). The proposed budget for next fiscal year requests an additional 133 FTEE for CHAMPVA. With these new employees, VA plans to assume total administrative responsibility for paying CHAMPVA claims.

The budget unfortunately does not provide us information on the total cost of this proposed VA in-house CHAMPVA claims administration. For example, the budget does not include the cost of office space or the cost of recurring expenses for communications, supplies, equipment repairs, furnishing and so on.

(1)A. I'd like to know the total cost of this proposal. I'd like to know the cost of office space, recurring expenses for supplies, equipment repair, communications, incidental expenses and all other anticipated costs.

Answer: The total cost of this proposal is $3,397,000. The recurring operating costs (rent, communications, utilities, maintenance, supplies, furniture, equipment and incidental expenses) are estimated at $330,000 per year.

Question: (1)B. I'd also like to know how many claims will be administered by these 133 people annually and how many claims are processed each year now.

Answer: For fiscal year 1986, total claims paid for inpatients were 54,314 and over 286,000 for outpatients. For fiscal year 1987, total claims paid for inpatients were 51,000 and over 288,000 for outpatients.

Question: (1)C. What is the comparative cost on a per claim basis?

Answer: The projected costs associated with the VA assumption of CHAMPVA claims processing are approximately $7.96 per claim paid as compared with the existing $11.98 per claim paid.

Question: (1)D. Does the proposed budget also consider a reduction in the number of claims processed due to eliminating benefits for persons not eligible for CHAMPVA?

Answer: The eligibility revalidation of CHAMPVA enrollees initiated in January 1987 has resulted in a 20 percent decrease in enrollment to date. We anticipate an additional 5 to 8 percent decrease will be realized from two computer matches scheduled later this fiscal year. Although we cannot estimate the full impact on program costs of this revalidation exactly, we anticipate an additional reduction of $9 million in 1989 as reflected in the congressional budget.

Question: (1)E. The bottom line is will in-house CHAMPVA claims administration by VA save the government money and provide better services?

Answer: It was our intent to establish the Central CHAMPVA Registry Center (CCRC) to function as the focal point for communications relative to establishing individual eligibility for CHAMPVA; to monitor beneficiary entitlement; to retain all active CHAMPVA files; to serve as liaison between VA medical centers, VA Central Office, OCHAMPUS and Austin DPC. We believe that centralizing these activities will enhance our ability to effectively and efficiently manage the CHAMPVA program and that these changes will both save the government money and provide better service.

CHAIRMAN MONTGOMERY

Question: (1)F. How does the cost of this proposal compare to the current method of administering these claims?

Answer: The VA anticipates $1 million per annum in recurring savings over the current level of administrative charges paid to DoD. In addition, the center will help resolve problems in VA/DoD communication regarding eligibility information.

Question: (2)A. Where will the additional 133 FTEE requested for CHAMPVA claims administration work?

Answer: Consideration is being given to have the additional 133 FTEE requested for the CHAMPVA program work in Denver.

Question: (2)B. Will they work in Denver if this request is approved?

Answer: That is the current plan.

Question: (2)C. I understand the 7 FTEE requested in last year's budget to work on CHAMPVA are located in Denver. Is there any other explanation for basing the requested additional 133 employees in Denver?

Answer: The CHAMPVA enrollment center was established in Denver because of the liaison activities necessary to the program with the OCHAMPUS program which is also located in Denver. The enrollment center has been very successful in its operations at the Denver location. They have access to ADP support at the Denver VA Medical Center and the management staff at Denver VAMC are very supportive of the enrollment center activities and the CHAMPVA program in general. It is for these reasons that consideration is being given to the establishment of the payment center in Denver but no definite decision has been made.

Question: (2)D. What options have been considered?

Answer The proposal for placement of the proposed center is contingent upon available space and resources.

Question: (2)E. What analysis has been made?

Answer: Preliminary to the formal presentation of this proposal to the Chief Medical Director (CMD), the Task Force to implement the CHAMPVA payment center will thoroughly review and analyze the program proposal.

Question: (2)F. What were the results?

Answer: The Task Force recommendation and findings will be provided the CMD for discussion and resolution.

Question: (3)A. I understand the additional FTEE requested in last year's budget for CHAMPVA who are now working in Denver on badly needed improvements in CHAMPVA eligibility roles, have recently been relocated to a refurbished warehouse located approximately 1-1/2 miles from the Denver VAMC campus. Apparently a part of this warehouse has been converted to office space and is being used by VA employees. Is this the best location and space available for these activities?

Answer: Yes.

Question: (3)B. Have any alternatives been considered?

Answer: Yes.

CHAIRMAN MONTGOMERY

Question: (3)C. What options were considered and what were the results?

Answer: Several options were explored for the office location. The VA researched the possibility of additional office space at the VAMC Denver and nothing suitable for the program was available. An inquiry was made to the Fitzsimons Army Medical Center for any adjacent space to the OCHAMPUS offices and nothing was available. We then explored warehouses that would be suitable because of the need for not only adequate office space but also space for forms and files storage. The current location was selected not only because of the close proximity to the Denver VAMC, but also because pre-existing office space was located within a warehouse. No construction/renovation was necessary.

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ONE HUNDREDTH CONGRESS
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CHAIRMAN

U.S. House of Representatives
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March 2, 1988

Honorable Thomas K. Turnage
Administrator of Veterans Affairs
Veterans Administration
Washington, D.C. 20420

Dear Mr. Administrator:

Thank you for your testimony earlier today on the President's FY 1989 VA budget submission.

Time did not permit all of the Members' questions to be asked. As discussed by my staff with Al Poteet, enclosed are questions for the hearing record to which we would appreciate receiving answers by noon, Tuesday, March 8, 1988. Your answers will be most helpful as we prepare our recommendations to the Budget Committee which must be submitted next Thursday. Other questions important to the hearing record will be forwarded at a later date.

I appreciate your cooperation and that of your staff.

Sincerely,

G. V. (SONNY) MONTGOMERY
Chairman

GVM:cls

Enclosures

CHAIRMAN MONTGOMERY

Question: 1A. The Continuing Resolution for Fiscal Year 1988 reduced the Medical Information and Resources Office Account by $1 million as a penalty for not adequately evaluating the Integrated Hospital System projects. What was the total budget for that Office?

Answer: A $1 million reduction in administrative ADP cost in the Medical Administration and Miscellaneous Operating Expenses Appropriation was the result of the Conference Report accompanying H. J. Resolution 395, which provided FY 1988 appropriations.

The original FY 1988 MAMOE ADP Budget was $4.4 million. The $1 million (23%) reduction has reduced our current FY 1988 MAMOE ADP estimate to $3.4 million.

Question: 1B. What is the impact of that serious reduction in medical ADP funding?

Answer: The FY 1988 mandated reduction in the MAMOE administrative ADP cost (not "medical" ADP funding) has caused disruptions in plans to directly support DM&S VACO program and management operations.

A 90% cut in capital outlay ($800,000 to $81,000) and a 50% cut in associated software and hardware maintenance ($731,000 to $369,000) was required in order to meet the $1 million reduction. All other categories of ADP expenditures were reviewed and a shifting of ADP resources was accomplished to offset an unbudgeted increase in time-sharing costs.

Before the $1 million ADP reduction was imposed, it was planned to complete the implementation of the WANG Office Network (terminals and printers) for DM&S Central Office staff use. The information processing and data storage capacity in support of this network was bought in FY 1987. The Department also planned to increase the level of micro-processing support for program offices. As a result of the reduction, capital outlay and associated software and hardware maintenance costs have been reduced to support only existing equipment.

Examples of the impact of these reductions are as follows:

- During FYs 1987 and 1988 the Department had planned to purchase 25 personal computers (PCs) in FY 1987 and 26 in FY 1988. Because of a purchase contract protest, the 25 PCs planned for 1987 were not purchased and were carried over to FY 1988. The procurement was in process and had been advertised in the Commerce Business Daily when word was received of the loss of FY 1988 funds. As a result of the reduction, we will not be able to purchase any PCs in FY 1988. The computers were planned to maintain data concerning field operations using inputs from DHCP and the mainframes at Austin. This reduction leaves Clinical Affairs staff with inadequate ADP resources to support such initiatives as management of defense nuclear radiation exposure data, a national VA drug file, efficient analysis of data on homeless veterans, and a means of analyzing patient treatment data from DHCP.

- Funds to purchase outside computer time for work on strategic planning initiatives, resource allocation methodologies, and surgical mortality and morbidity reviews have been reduced, causing reprioritization of ADP services.

- Completion of the installation of the Wang Office Network (interoffice communications, word processing, and time management) will be delayed. The purchase of terminals and printers has been cancelled for FY 1988. When completed, the Wang Network will improve the efficiency and effectiveness of Central Office units by providing a common word processing system/interoffice communications, and information sharing.

In conclusion, these ADP initiatives were an important resource for Central Office staff operations. Loss of these funds impairs ability to perform as effectively and efficiently as possible.

CHAIRMAN MONTGOMERY

Question: 2. What specific steps are planned to accomplish the reduction of $9 million worth of health care delivered to ineligibles under the CHAMPVA program?

Answer: On October 1, 1986, DM&S activated the Central CHAMPVA Registration Center (CCRC) at the Denver VAMC, Colorado, in order to establish an internal control over the CHAMPVA as required by the Federal Managers' Financial Integrity Act of 1982, OMB Circular A-123, and Agency Policy (MP-I, II, 15-5). This Center functions as the focal point for both written and oral communications relative to establishing and maintaining individual eligibility for CHAMPVA, the monitoring of CHAMPVA beneficiary entitlement, and the housing of all active CHAMPVA beneficiary files and records.

A phased operation was set into motion in order to accomplish our goal of protecting the VA's interests and resources by eliminating "a highly vulnerable fraud and abuse potential" through strong internal controls. They are:

PHASE I: Transmittal of all hard-copy CHAMPVA beneficiary/sponsor files from each individual VAMC to the CCRC. Completed.

PHASE II: CCRC staff perform a prefatory review of all hard-copy CHAMPVA beneficiary files to sort out active vs. inactive eligible vs. ineligible, using existing documentation. In questionable cases, and when entitlement documents predate 1978, formally request DVB certification of entitlement. Completed.

PHASE III: Computer input of those CHAMPVA beneficiaries who remain on the rolls after being subjected to phases I & II. Planned completion - March 15, 1988.

PHASE IV: Tape-to-Tape interface with DoD DEERS in order to identify dual enrollees. Formal notification of all such persons and cessation of benefits. Planned completion (match and follow-up) - October 1, 1988.

PHASE V: Tape-to-tape interface with DVB's TARGET (C&P) tape to identify ineligibles who should be purged. Planned completion (match and follow-up) - October 1, 1988.

PHASE VI: A site visit by disinterested DM&S staff to perform an audit of the CCRC tapes vs. TARGET vs. hard copy records to determine error rate and recommend solutions. Planned after completion of Phases IV and V.

PHASE VII: Formal enrollment of all reverified CHAMPVA beneficiaries to include issuance of new controlled I.D. card and associated documents. This completes our planned reverification/reenrollment process and we can enter into the "monitor mode" which involves:

- A monthly computer generated listing of all CHAMPVA beneficiaries who are within 90 days of approaching:

  Age 18
  Age 23
  Age 66

- A monthly computer listing of helpless children

- A monthly computer listing of students (18-23 age)

- A monthly listing of persons over 65 who are reinstated because of exhausting Part A Medicare insurance benefits.

- A by-request tape-to-tape match with DVB's TARGET (C&P)

These steps, combined with our companion proposal to incorporate a central CHAMPVA claims processing procedure which will allow the VA to assume full responsibility for the costs of CHAMPVA care rendered to eligible VA beneficiaries, will prevent payments to ineligibles. Planned completion - March 1, 1989.

CHAIRMAN MONTGOMERY

Question: 3. In addition to the 1 percent productivity increase described in the Veterans' Administration's proposed fiscal year 1989 budget, what other productivity initiatives are in place throughout the agency? For example, what anticipated productivity gains (in terms of cuts in FTEE) are projected to be achieved through A-76 activities, efficiency reviews and management productivity improvements such as those due to the implementation of the Decentralized Hospital Computer Program?

Answer: Productivity improvements that impact FTEE (in addition to the one percent productivity) are the staffing ratio adjustment and savings associated with the Decentralized Hospital Computer Program (DHCP). No reductions are associated with either A-76 activities or efficiency reviews for 1989 in DM&S.

The proposal to reduce the staffing ratio to the level that existed during the first half of 1987 is based on staff productivity that existed during the first half of 1987. During that period, the staff level was 3,368 below the current level and yet all veterans who applied for care and were in need of care were served. The 1989 reduction of 1,684 FTEE is the first step in a two-year reduction to meet this staffing target.

DHCP provides tools to assist health care providers, administrators and managers in the performance of the health care mission, while creating additional benefits of standard management data. The budget identifies 135 FTEE to be saved as a result of the DHCP investment. The expectation is that if VA staff have better computer tools, time will be saved which can be translated into FTEE savings.

In the General Operating Expenses appropriation, there are several reasons for the decrease in FTEE requested in 1989. Savings result from Most Efficient Organizations (MEO) studies performed by the Austin and Philadelphia Data Processing Centers (16 FTEE); implementation of OMB Circular A-76 in the VACO mail and audio-visuals activities (23 FTEE); DVB's modernization initiative (54 FTEE); DVB's insurance initiative (26 FTEE) and the one percent productivity increase (159 FTEE). The remainder of the FTEE savings is due to workload decreases.

Question 4. What is the present productivity level in the Department of Medicine and Surgery?

Answer: The DM&S productivity figure, calculated and reported to the Department of Labor under the Federal Productivity Measurement System in June 1987, was 107.1 for FY 1986 compared to 104.1 reported for FY 1985. These calculations are based on output per employee year.

CHAIRMAN MONTGOMERY

Question: 5. Verbiage in the budget documents reports the decreases in lengths of stay and the number of inpatients treated as a result of reclassifying one-day dialysis treatment as an outpatient treatment. Please explain how you will ensure allocation of adequate resources to VA hospitals to pay for dialysis treatments.

Answer: There is no change in total budgetary resources available for one-day dialysis treatments as a result of the reclassification of these treatments to an outpatient procedure rather than a one-day hospital admission. In addition, there will be no change or adjustment to the level of resources allocated to the field facilities based on this reclassification. This reclassification by activity (inpatient to outpatient) will not affect the range of services or quality of care that VA dialysis patients currently receive. This change puts VA hospitals on the same basis as other hospitals across the country in terms of counting one-day dialysis treatments.

Question: 6. The justification for approximately 1,000 FTEE short in activations is slippage in the activations. Please provide a list to the Committee of the facilities, their original activation dates and projected FTEE levels and their current activation dates and projected FTEE levels.

Answer: The budget request for activations is the sum of all projects requiring all or part-year resources in FY 1989 based on the projects activation date at the time the budget was finalized. The attached chart provides the activation dates and resources required by project based on those dates.

Slippage is an estimate of expected delay in activation dates that is likely to occur after the President's Budget has been submitted to Congress. Because project specific delays cannot be forecast, slippage is applied as a percentage to total activation requirements.

ATTACHMENT

FACILITY ACTIVATIONS
FISCAL YEAR 1989
SUMMARY 1/

(dollars in thousands)

		COST		
	FTEE	RECURRING	NON-RECUR.	TOTAL
Facility New Activations Request...	1477	66409	107650	174059
Non-Recurring Maint. and Repare....	0	0	7097	7097
Minor Miscellaneous................	37	1658	2459	4117
Subtotal........................	1514	68067	117206	185273
LESS:				
1989 Slippage...................	-1052	-43596	-61425	-105021
Net New Activations................	462	24471	55781	80252
ADD:				
1988 Slippage...................	931	35164	77363	112527
1988 Annualizations.............	489	21640	3476	25116
LESS PRIOR YEAR BASE:				
Equipment........................	0	0	-99549	-99549
One-Time Supplies................	0	0	-22334	-22334
Net New Activations Requests	1882	81275	14737	96012

1/ The lists attached provide the project listing of new projects (that tie to the first subtotal of $185,273,000) and a project listing of annualization requirements (to complete full year funding for projects started in 1988) in 1989 ($25,116,000). The 1988 and 1989 slippage projections are identified in each years' Congressional Budget.

ACTIVATION REQUEST
FISCAL YEAR 1989
(dollars in thousands)

FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
Total New Activations			Line Item Count :	171	1514	68067	117206	185273
Subtotal		CLINICAL IMP.	Project Count :	36	511	23930	18333	42263
CHEYENNE, WY	442023	EXPAND & RENOV.BLDG.1 FOR CLINICAL FUNC.	MAJOR	02/20/90	7	277	1776	2053
ALBANY, NY	500068	RENOVATE CHEMISTRY LAB	MINOR	12/05/89	0	0	14	14
ALBUQUERQUE, NM	501087	MRI FACILITY	MINOR	10/27/99	0	0	506	506
ALEXANDRIA, LA	502058	CLINCAL IMPROVEMENT	MAJOR	06/06/89	56	3368	191	3559
AMERICAN LAKE, WA	505076	NEW RMS FACILITY FOR MAT	MINOR	10/24/89	0	0	36	36
ANN ARBOR, MI	506058	LINEAR ACCELERATOR	MINOR	05/18/89	6	417	156	573
BROCKTON/W.ROXBURY, MA	525076	RELOCATE MICU, BUILDING 3	MINOR	03/24/89	2	90	0	90
BUFFALO, NY	528068	RENOVATE RADIOLOGY	MINOR	01/03/90	0	0	568	568
CLARKSBURG, WV	540008	CLINICAL ADDITION AND ALTERATIONS	MAJOR	05/26/89	81	3674	211	3885
CLEVELAND, OH	541021	CLINICAL IMPROV. & RELOC. OF SURG. SERV.	MAJOR	10/04/89	1	71	43	114
DALLAS, TX	549058	CONSTRUCT MRI FACILITY	MINOR	01/19/90	0	0	8	8
DAYTON, OH	552177	LINEAR ACCELERATOR & C.T.SCANNER	MINOR	11/22/89	0	0	383	383
EAST ORANGE, NJ	561044	LINEAR ACCELERATOR(BLDG ADDN)	MINOR	01/23/89	2	98	0	98
EAST ORANGE, NJ	561060	UPGRADE MICU	MINOR	01/26/89	0	14	0	14
FORT MEADE, SD	568034	MEDICAL SUPPORT SERVICE EXPANSION	MINOR	12/15/89	0	0	219	219
FRESNO, CA	570035	RECONSTRUCT MICU/CCU & STEPDOWN	MINOR	10/31/88	24	917	69	986
HINES, IL	578111	40 BED LONG TERM SCI UNIT	MAJOR	03/16/89	111	4442	841	5283
INDIANAPOLIS, IN	583030	BACKFILL,ALTERATIONS, NEW WING ADDITION	MINOR	09/19/89	2	86	0	86
KERRVILLE, TX	591048	RENOVATE SPD	MINOR	10/01/88	1	40	0	40
LEXINGTON, KY	596A04	CLINICAL ADDITION	MAJOR	12/15/89	23	906	8320	9226
LONG BEACH, CA	600062	RELOC/CONSOL HEMODIALYSIS 5W,BLDG.126	MINOR	03/24/89	1	52	18	70
LOUISVILLE, KY	603024	CLINICAL AND EDUCATION ADDITION	MAJOR	02/09/89	76	3574	0	3574
LOUISVILLE, KY	603038	RELOCATE SICU,GU/PROCTO CLINIC	MINOR	01/05/89	19	907	429	1336
MEMPHIS, TN	614060	RELOCATE PHARMACY	MINOR	11/16/89	0	0	81	81
NEW ORLEANS, LA	629045	RENOVATE SICU,6W	MINOR	01/04/89	6	249	0	249
NORTHPORT, NY	632091	LINEAR ACCELERATOR	MINOR	12/14/89	0	0	385	385
PALO ALTO, CA	640040	SCI ADDITION	MAJOR	08/11/89	54	2485	293	2778
PALO ALTO, CA	640105	DEVELOP CARDIAC CATH LAB	MINOR	12/11/89	0	0	256	256
PITTSBURGH(UD), PA	646060	RADIATION THERAPY SUITE (UD)	MINOR	05/15/89	5	304	18	322
SALISBURY, NC	659015	GEROPSYCHIATRIC BUILDING	MAJOR	07/20/90	3	109	668	777
SAN FRANCISCO, CA	662076	CARDIAC CATH LAB EXPANSION, BLDG. 203	MINOR	08/07/89	0	110	2503	2613
SAN DIEGO, CA	664063	REMODEL MICU/CCU	MINOR	12/15/88	19	714	0	714
TOPEKA, KS	677039	RENOVATE AND UPDATE ICU	MINOR	08/10/89	1	49	270	319
WASHINGTON, DC	688049	RENOVATE RADIOLOGY - PHASE 2	MINOR	12/06/89	0	0	8	8
WEST LOS ANGELES, CA	691143	BLDG.304,HUMAN FACILITY	MINOR	07/07/89	3	159	0	159
WILKES-BARRE, PA	693044	ALCOHOL TREATMENT UNIT	MINOR	10/19/88	8	818	63	881
Subtotal		DOMICILIARY	Project Count :	4	5	180	2498	2678

ACTIVATION REQUEST
FISCAL YEAR 1989
(dollars in thousands)

FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
PRESCOTT, AZ	649065	REPLACE DOMICILIARY	MAJOR	05/23/90	3	105	962	1067
TEMPLE, TX	674024	400-BED REPLACEMENT DOMICILIARY	MAJOR	04/18/89	0	0	840	840
WEST LOS ANGELES, CA	691090	RENOV. BLDGS. FOR DOMICILIARY	MAJOR	09/05/90	1	39	465	504
MILWAUKEE, WI	695104	RENOVATE BUILDING 43 FOR DOM.	MAJOR	09/27/89	1	36	231	267
Subtotal		ELECTRICAL	Project Count :	4	3	117	20	137
########		###############	###############	#####	#####	#####	#####	######
JACKSON, MS	586041	RENOVATE ELECTRICAL SYSTEM	MINOR	06/06/89	1	37	0	37
HAMPTON, VA	590088	ELECTRICAL SYSTEM MODERNIZATION	MAJOR	11/02/89	0	0	5	5
LONG BEACH, CA	600055	UPGRADE SECONDARY ELECTRICAL DISTR.	MAJOR	03/16/89	1	37	0	37
SALT LAKE CITY, UT	660138	ELECTRICAL IMPROVEMENTS	MAJOR	07/03/89	1	43	15	58
Subtotal		FIRE AND SAFETY	Project Count :	9	10	404	592	996
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CLEVELAND, OH	541022	FIRE AND SAFETY IMPROVEMENTS	MAJOR	09/13/89	1	37	0	37
GRAND ISLAND, NE	574009	F & S IMPROVEMENTS, HVAC, PVIV. SUPPORT	MAJOR	10/06/88	5	210	0	210
INDIANAPOLIS, IN	583033	F & S IMPROV(WT & CS)	MAJOR	04/04/90	0	0	24	24
KNOXVILLE, IA	592066	FIRE AND SAFETY IMPROVEMENTS	MAJOR	10/03/89	0	0	6	6
SYRACUSE, NY	670016	F&S,PAT PRIV & SUPPORT SYS & HVAC	MAJOR	05/25/89	0	2	0	2
TOPEKA, KS	677022	F&S PAT. PRVCY & ELECTRICAL IMPROVEMENTS	MAJOR	09/05/90	0	0	4	4
WACO, TX	685077	RENOVATE BUILDINGS 91 AND 92	MAJOR	05/08/90	2	73	550	623
WASHINGTON, DC	688051	ADDITIONAL SPRINKLERS	MINOR	02/07/89	2	82	5	87
WEST LOS ANGELES, CA	691046	ELIMINATE DEADEND CORRIDORS,BLDG. 258	MINOR	03/07/90	0	0	3	3
Subtotal		GENERAL	Project Count :	45	105	4627	8427	13054
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FORT HARRISON, MT	436069	RENOVATE WARD 3	MINOR	12/19/89	0	0	71	71
FARGO, ND	437045	WAREHOUSE ADDITION	MINOR	08/23/90	0	0	51	51
AMERICAN LAKE, WA	505073	LAUNDRY REPLACEMENT	MAJOR	03/28/89	6	228	14	242
BROCKTON/W.ROXBURY, MA	525018	MODERNIZE BUILDINGS 2 & 7	MAJOR	06/16/89	9	422	0	422
BROOKLYN, NY	527072	RENOVATE WARDS (8W & 13W)BUILDING 1	MINOR	05/11/90	0	0	246	246
BUFFALO, NY	528057	REMODEL MAIN KITCHEN	MINOR	03/16/89	0	8	0	8
BOISE, ID	531047	CONNECTING CORRIDOR, B27 TO 29	MINOR	02/01/89	1	45	15	60
CHICAGO LAKESIDE, IL	535038	MODERNIZATION WARDS 11TH FLOOR	MINOR	01/04/89	0	0	125	125
CHILLICOTHE, OH	538079	SEWAGE PLANT	MINOR	10/01/88	0	38	0	38
CLARKSBURG, WV	540016	WARD RENOVATION(4A)	MINOR	08/23/89	0	0	67	67
COLUMBIA, SC	544044	VERTICAL EXTENSION, 4TH FLOOR,SOUTH WING	MINOR	05/10/90	3	105	65	170
DUBLIN, GA	557026	PATIENT PRIVACY, BUILDING 13	MINOR	07/07/89	3	106	10	116
DURHAM, NC	558048	PARKING STRUCTURE	MAJOR	06/29/90	0	0	51	51
EAST ORANGE, NJ	561025	IMPROVE & CORRECT ENVIR. DEF	MAJOR	02/07/89	51	2209	4907	7116
FORT HOWARD, MD	566042	RENOVATE 1st AND 2nd FLOORS,BLDG.61	MINOR	10/25/89	0	0	56	56
FORT LYON, CO	567074	PATIENT PRIVACY,40	MINOR	12/20/89	0	0	5	5
HINES, IL	578097	180 BED PSYCHIATRIC REPLACEMENT FACILITY	MAJOR	01/04/90	8	355	21	376

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FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
HOT SPRINGS, SD	579A50	RENOVATE DIETETICS,BUILDING 53(PHASE 1)	MINOR	11/10/88	1	39	150	189
HAMPTON, VA	590099	TELEPHONE SYSTEM SITE PREP	MINOR	12/14/88	0	25	0	25
LEXINGTON, KY	596056	RENOVATE KITCHEN,BLDG.3	MINOR	10/02/89	0	0	170	170
LYONS, NJ	604061	RENOVATE BUILDING 4 - INTERMEDIATE CARE	MAJOR	07/20/90	0	0	65	65
LYONS, NJ	604077	RENOVATE BLDGS.7 & 57	MAJOR	06/08/90	0	0	284	284
MANCHESTER, NH	608031	CLINICAL UPGRADE AND WAREHOUSE BLDG.	MINOR	06/16/89	0	18	0	18
MARION, IN	610074	REMODEL BUILDING 122	MINOR	10/27/88	0	10	0	10
NEW ORLEANS, LA	629033	RENOV. 3RD FLR PATIENT RMS (EAST)	MINOR	02/08/89	0	10	0	10
NORTHAMPTON, MA	631078	REPLACE TELEPHONE SYSTEM	MINOR	01/12/90	0	0	4	4
OKLAHOMA CITY, OK	635026	RENOVATE 3 WARDS - PHASE I	MINOR	05/31/89	9	332	0	332
OKLAHOMA CITY, OK	635046	RENOVATE 3 WARDS - PHASE II	MINOR	11/16/89	5	168	55	223
PHILADELPHIA, PA	642062	MODERNIZE WARD 5W	MINOR	03/13/89	0	8	0	8
PHILADELPHIA, PA	642063	MODERNIZE WARD 6S	MINOR	12/20/89	0	0	220	220
PHOENIX, AZ	644042	REMODEL BUILDING 21	MINOR	11/27/89	0	0	98	98
PRESCOTT, AZ	649068	UPGRADE TELEPHONE SYSTEM	MINOR	08/10/89	0	1	10	11
PROVIDENCE, RI	650045	RENOVATE WARD 4A	MINOR	11/30/89	0	0	19	19
ST. LOUIS, MO	657038	RENOVATE WARD 4N, BUILDING 1	MINOR	07/20/90	0	0	66	66
ST. LOUIS, MO	657055	RENOVATE WARD 7B	MINOR	02/03/89	0	48	0	48
ST. LOUIS, MO	657086	REMODEL BASEMENT,BLDG. 1	MINOR	03/22/90	0	0	5	5
ST. LOUIS, MO	657087	REMODEL 1ST FLR. CENTER & WEST	MINOR	02/09/89	0	4	0	4
ST. LOUIS, MO	657A79	LAUNDRY REPLACEMENT	MAJOR	12/31/88	0	30	18	48
SALISBURY, NC	659029	GROUND FLOOR ADDITION,BUILDING 2	MINOR	11/01/88	0	1	0	1
SALT LAKE CITY, UT	660098	PATIENT PRIVACY,BUILDING 3	MINOR	04/18/90	0	0	58	58
SYRACUSE, NY	670030	PARKING STRUCTURE	MAJOR	06/01/90	0	0	43	43
TEMPLE, TX	674058	MAIN KITCHEN RENOVATION	MINOR	10/26/89	0	0	100	100
TOMAH, WI	676032	MODERNIZE BUILDINGS 403 & 404	MAJOR	10/26/89	4	196	400	596
WACO, TX	685076	RENOVATE BUILDINGS 10 & 90	MAJOR	09/21/89	4	177	904	1081
WEST LOS ANGELES, CA	691156	RELOCATE DISTRICT COUNSEL	MINOR	08/24/89	1	44	54	98
Subtotal		HVAC	Project Count :	2	1	214	0	214
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BONHAM, TX	522032	CONSTRUCT CENTRAL AIR CONDITIONING PLANT	MINOR	10/28/88	1	212	0	212
KANSAS CITY, MO	589043	RENOVATE DIETETICS (INCL HVAC)	MINOR	06/07/89	0	2	0	2
Subtotal		MINOR MISC	Project Count :	25	37	1658	2459	4117
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ALBUQUERQUE, NM	501101	NHCU RENOVATION	MINOR MIS	04/05/89	0	0	100	100
ALTOONA, PA	503035	REMODEL RESPIRATORY CARE	MINOR MIS	03/13/89	0	0	90	90
ANN ARBOR, MI	506075	ADP COMPUTER ROOM EXPANSION/ADDITION	MINOR MIS	02/15/89	6	291	268	559
BIG SPRING, TX	519019	REMODEL RADIOLOGY	MINOR MIS	10/11/88	0	36	0	36
BROOKLYN, NY	527062	RENOVATE WARD 11W, BUILDING 1	MINOR MIS	10/13/88	0	0	57	57
BUFFALO, NY	528052	EDUC.FACIL,WARDS 6A,7A,8D,9C & 9D	MINOR MIS	11/02/88	0	0	183	183
BUFFALO, NY	528070	REMODEL WARDS 6B & 6C FOR GERIATRICS	MINOR MIS	11/03/89	0	0	97	97
CANANDAIGUA, NY	532073	CONSTRUCT TERTIARY SEWAGE TREAT. PLANT	MINOR MIS	10/26/88	0	9	8	17

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CANANDAIGUA, NY	532081	SUBDIVIDE FOR PATIENT PRIVACY,3-B	MINOR MIS	08/08/89	0	1	0	1
CANANDAIGUA, NY	532086	RELOCATE & UPGRADE DENTAL SERVICE	MINOR MIS	10/27/88	0	1	0	1
CANANDAIGUA, NY	532097	RENOVATE ADMISSIONS AREA,BUILDING 1	MINOR MIS	01/12/90	0	0	9	9
CHARLESTON, SC	534040	ENGINEERING STORAGE BUILDING	MINOR MIS	12/08/88	1	50	99	149
DANVILLE, IL	550078	RELOCATE DIRECTOR'S SUITE & MAS OFFICE	MINOR MIS	12/22/88	0	0	204	204
IOWA CITY, IA	584075	ESTABLISH AMBULATORY SURGERY	MINOR MIS	04/11/89	7	313	155	468
HAMPTON, VA	590105	PRE-ENG'R SPD STORAGE BUILDING	MINOR MIS	10/06/88	0	4	0	4
LONG BEACH, CA	600086	AIR CONDITION BUILDING 4	MINOR MIS	05/19/89	0	9	0	9
MONTROSE, NY	620063	AIR CONDITION BUILDING 28	MINOR MIS	03/09/89	1	57	0	57
PALO ALTO, CA	640080	BLIND CENTER LIVING QUARTERS	MINOR MIS	01/19/89	1	36	0	36
PALO ALTO, CA	640115	BRAIN TRAUMA NEUROPHARM UNIT	MINOR MIS	02/26/90	4	151	31	182
PALO ALTO, CA	640132	RELOCATE AUDIOLOGY SUITE, B25 PHASE 1	MINOR MIS	06/06/89	3	110	394	504
PITTSBURGH(HD), PA	645032	ENCLOSE AREA UNDER PHARMACY	MINOR MIS	04/28/89	1	37	15	52
ST. LOUIS, MO	657111	RENOV.3RD FLR.,SEISMIC,BLDG.2(EDUCATION)	MINOR MIS	04/06/89	0	0	27	27
SEPULVEDA, CA	665017	PRIMATE LABORATORY	MINOR MIS	03/14/89	1	52	0	52
SHREVEPORT, LA	667047	RELOCATE CARD/PULMONARY LAB	MINOR MIS	10/25/88	0	54	302	356
WASHINGTON, DC	688045	RELOCATE SICU AND RECOVERY ROOMS	MINOR MIS	02/23/89	12	447	420	867
Subtotal		NHCU	Project Count :	12	442	18778	2261	21039
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SAN JUAN, PR	455015	120 BED NHC & 10 BED BLIND REHAB CENTER	MAJOR	10/27/88	121	5258	238	5496
AMARILLO, TX	504031	120 BED NURSING HOME CARE UNIT	MAJOR	04/13/90	19	721	487	1208
BUTLER, PA	529038	MODIFY FOR BED CONVERSION	MINOR	04/20/90	0	0	54	54
CANANDAIGUA, NY	532082	RENOVATE BUILDING 7 TO NHCU(DOMINO)	MINOR	10/18/89	0	0	115	115
DURHAM, NC	558023	120 BED NHCU,ADM.SVCS.& RESEARCH,GRECC	MAJOR	04/18/89	92	3798	308	4106
MILES CITY, MT	617014	RENOD. WARD 3 FOR NURSING HOME CARE PH 1	MINOR	05/30/90	0	0	25	25
MURFREESBORO, TN	622049	120-BED NURSING HOME CARE UNIT	MAJOR	03/05/89	66	2736	528	3264
PITTSBURGH(HD), PA	645052	RENOV.BLDG.5 FOR NURSING HOME CARE UNIT	MINOR	11/14/89	17	509	0	509
PRESCOTT, AZ	649047	60 BED NURSING HOME CARE UNIT	MAJOR	06/01/89	42	1756	271	2027
SAN FRANCISCO, CA	662043	120 BED NURSING HOME CARE	MAJOR	02/08/90	15	529	17	546
SYRACUSE, NY	670032	CONSTRUCT NURSING HOME CARE UNIT	MINOR	12/28/89	0	0	67	67
WEST LOS ANGELES, CA	691098	120 BED NHC (CONVERSION) PH2,BLDG.213	MAJOR	01/27/89	70	3391	151	3542
Subtotal		NR M & R	Line Item Count :	1	0	0	7097	7097
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VARIOUS	9999NM	FY 89 NR M & R ACTIVATE FY 89	NRM	01/28/90	0	0	7097	7097
Subtotal		OUTPAT. IMP.	Project Count :	6	94	3876	1057	4933
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ALBANY, NY	500066	RENOVATE 1C CLINICS	MINOR	06/28/89	13	569	0	569
ALBANY, NY	500067	RENOVATE 1D ADMITTING	MINOR	06/20/89	0	25	0	25
BROOKLYN, NY	527051	RENOVATE GROUND FLOOR - BLDG. 1(PH 1)	MINOR	10/19/89	8	371	345	716
ERIE, PA	562023	OPC MODERNIZATION/EXPANSION & SPD RELOC.	MINOR	04/20/90	8	289	547	836

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FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
GRAND JUNCTION, CO	575025	OUTPATIENT AND CLINICAL ADDITION	MAJOR	01/16/89	65	2622	156	2778
SEPULVEDA, CA	665074	PSYCH OUTPATIENT BUILDING 25	MINOR	10/10/89	0	0	9	9
Subtotal		REPL. AND MOD.	Project Count :	5	15	551	56313	56864
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ALBUQUERQUE, NM	501C51	NEW CLINICAL SERVICE BED BLDG. (PH IIB)	MAJOR	04/27/90	15	551	732	1283
AUGUSTA, GA	509A69	REPLACEMENT HOSPITAL(LD) (PHASE 2)	MAJOR	05/29/91	0	0	9959	9959
HOUSTON, TX	580D40	REPLACEMENT/MODERNIZATION (PHASE 2)	MAJOR	10/29/90	0	0	33693	33693
MOUNTAIN HOME, TN	621D64	BED TOWERS/RENOVATIONS (PHASE 3)	MAJOR	09/14/90	0	0	3000	3000
PHILADELPHIA, PA	642C34	CLIN.ADDN./RENOVATION/240 BED NHCU(PH 3)	MAJOR	12/13/90	0	0	8929	8929
Subtotal		RESEARCH - EDUC.	Project Count :	7	17	825	381	1206
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BUFFALO, NY	528039	RESEARCH BUILDING/CLINICAL EXPANSION	MAJOR	04/20/90	11	500	79	579
DANVILLE, IL	550057	CONSTRUCT LEARNING RESOURCE CENTER	MINOR	10/01/88	1	42	74	116
HINES, IL	578116	NEW ANIMAL RESEARCH BLDG.	MINOR	03/01/90	0	0	217	217
OKLAHOMA CITY, OK	635038	EXPAND ANIMAL FACILITY	MINOR	12/18/89	0	0	9	9
PALO ALTO, CA	640063	ANIMAL RESEARCH OPERATORY	MINOR	02/27/89	2	182	0	182
PALO ALTO, CA	640075	REHAB. ENGINEERING RESEARCH CENTER (PH3)	MINOR	03/06/89	3	101	0	101
PITTSBURGH(HD), PA	645027	EDUC&TRNG CTR(FLR 2),B-7	MINOR	10/30/89	0	0	2	2
Subtotal		SATELLITE OPC	Project Count :	14	274	12907	17612	30519
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BATTLE CREEK, MI	515129	SOPC - GRAND RAPIDS, MI	MAJOR	08/28/90	1	37	535	572
BOSTON, MA	523075	SOPC - LOWELL, MA	MAJOR	01/28/89	6	222	1515	1737
CHARLESTON, SC	534045	SAVANNAH OPC	MAJOR	08/28/89	20	985	172	1157
DALLAS, TX	549060	SOPC-FT. WORTH, TX	MINOR	02/28/90	16	865	2190	3055
EAST ORANGE, NJ	561087	SOPC - OCEAN COUNTY, NJ	MAJOR	08/28/89	28	1276	2072	3348
FAYETTEVILLE, AR	564047	SOPC-MT. VERNON, MO	MINOR	02/01/90	7	347	459	806
HOUSTON, TX	580053	SOPC - LUFKIN, TX	MAJOR	08/01/89	19	1235	2168	3403
LAKE CITY, FL	594065	TALLAHASSEE OPC	MAJOR	02/28/90	22	906	1183	2089
MINNEAPOLIS, MN	615002	SOPC - SUPERIOR, ~~MN~~ WI	MAJOR	01/28/89	43	2041	79	2120
OKLAHOMA CITY, OK	635079	SOPC-LAWTON, OK	MINOR	02/01/90	8	351	840	1191
SEPULVEDA, CA	665111	SOPC-SAN JOSE, CA	MINOR	02/28/90	20	824	1749	2573
SAN ANTONIO, TX	671052	SOPC - MCALLEN, TX	MAJOR	02/28/90	4	181	445	626
TAMPA, FL	673LES	SOPC - ORLANDO, FL - EXPANSION	MAJOR	04/28/89	68	3111	2800	5911
TEMPLE, TX	674082	SOPC-AUSTIN, TX	MINOR	02/28/90	12	526	1405	1931
Subtotal		SEISMIC	Project Count :	1	0	0	156	156
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ALBUQUERQUE, NM	501068	RENOV.SEIS,THER.& CONN.TO CHILL,B-4	MINOR	03/27/89	0	0	156	156

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FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
Total Annualizations			Line Item Count :	53	489	21640	3476	25116
Subtotal		CLINICAL IMP.	Project Count :	13	216	10038	656	10694
AMARILLO, TX	504026	ADDITION AND RENOV. OF CLINICAL SUPPORT	MAJOR	06/18/88	69	2876	116	2992
CASTLE POINT, NY	533066	LABORATORY ADDITION	MINOR	08/25/88	2	177	0	177
MIAMI, FL	546038	RELOCATE RADIOTHERAPY	MINOR	09/25/88	2	160	12	172
GAINESVILLE, FL	573033	INSTALL DIAGNOSTIC MRI	MINOR	05/02/88	4	330	94	424
HINES, IL	578115	NEW LINEAR ACCELERATION FACILITY	MINOR	12/01/87	1	30	0	30
LONG BEACH, CA	600057	120 BED SCIU ADDITION	MAJOR	09/23/88	28	1240	32	1272
MEMPHIS, TN	614034	RELOCATE & EXPAND SICU	MINOR	01/30/88	22	1092	0	1092
NASHVILLE, TN	626029	RENOVATE AND UPGRADE MICU AND CCU	MINOR	08/01/88	4	169	0	169
SALISBURY, NC	659032	PSYCH INTERMEDIATE CARE UNIT	MINOR	08/01/88	14	831	29	860
SALT LAKE CITY, UT	660132	MRI ADDITION	MINOR	09/23/88	5	250	143	393
SAN DIEGO, CA	664035	SPINAL CORD INJURY UNIT/SCI/OP CLINIC	MAJOR	06/10/88	61	2740	230	2970
SEPULVEDA, CA	665067	SICU & RECOVERY RENOVATION	MINOR	09/28/88	3	113	0	113
TEMPLE, TX	674034	CLINICAL EXPAND & RELOC. OF SUPPORT FACI	MAJOR	01/07/88	1	30	0	30
Subtotal		ELECTRICAL	Project Count :	3	2	104	155	259
ERIE, PA	562024	CONSTRUCT WAREHOUSE/PRIME ELECTRIC	MINOR	09/28/88	1	35	155	190
SAN DIEGO, CA	664036	EMERG GEN & CONSERV OF ENERGY	MAJOR	02/01/88	0	34	0	34
MILWAUKEE, WI	695081	CORRECT ELEC.DEFIC/PRIN.POWER(DOM.AREA)	MINOR	05/30/88	1	35	0	35
Subtotal		FIRE AND SAFETY	Project Count :	3	1	81	53	134
BOSTON, MA	523049	INSTALL DAMPERS	MINOR	02/28/88	1	40	5	45
BROOKLYN, NY	527A08	SPRINK.PAT.AREAS/SMOKE DETECTOR B#89	MINOR	01/15/88	0	40	48	88
OKLAHOMA CITY, OK	635057	HVAC DUCT RETURN SYSTEM	MINOR	07/05/88	0	1	0	1
Subtotal		GENERAL	Project Count :	9	35	1429	139	1568
CASTLE POINT, NY	533056	BUILDING ADDITION	MAJOR	08/03/88	22	906	54	960
DANVILLE, IL	550055	RENOVATE BLDG. 14 FOR ADMINISTRATION USE	MAJOR	12/02/87	1	43	0	43
INDIANAPOLIS, IN	583036	WAREHOUSE FACIL/LAUD.CONSOL.FACIL.	MINOR	08/11/88	1	47	0	47
LONG BEACH, CA	600053	CONSTRUCT SUPPLY WAREHOUSE	MAJOR	04/29/88	1	73	0	73
MARION, IL	609049	EXPAND DIETETICS/SPD	MINOR	05/10/88	5	176	54	230
MEMPHIS, TN	614033	DEVELOP ACQUIRED LAND	MINOR	03/20/88	2	60	0	60
PITTSBURGH(HD), PA	645026	RENOV OLD CANTEEN FOR OUTPATIENT AREA	MINOR	09/01/88	1	30	31	61
WACO, TX	685041	NEW DIETETICS BUILDING	MAJOR	08/08/88	1	62	0	62

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MILWAUKEE, WI	695125	TELEPHONE SYSTEM REPLACEMENT SITE PREP.	MINOR	12/23/87	1	32	0	32
Subtotal		HVAC	Project Count :	1	1	190	0	190
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SPOKANE, WA	668039	ADD HVAC PLANT	MINOR	09/22/88	1	190	0	190
Subtotal		MINOR MISC	Project Count :	14	53	1810	413	2223
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TOGUS, ME	402082	RENOVATE 3RD FLOOR, BUILDING 205	MINOR MIS	05/01/88	6	182	0	182
ALTOONA, PA	503029	REMODEL WARD 5	MINOR MIS	08/18/88	0	0	75	75
BROOKLYN, NY	527080	NURSE CALL SYSTEM (PHASE 2)	MINOR MIS	08/26/88	0	0	135	135
CHARLESTON, SC	534050	RADIOLOGY RENOVATION	MINOR MIS	09/27/88	1	36	90	126
MIAMI, FL	546040	RENOVATE 5AB FOR PSYCH BEDS	MINOR MIS	04/15/88	16	523	76	599
DAYTON, OH	552198	RENOVATE MICU/CARDIAC CATH.BUILDING 300	MINOR MIS	10/01/87	2	74	0	74
FAYETTEVILLE, AR	564035	EXPAND 3RD FLOOR FOR OFFICES	MINOR MIS	08/30/88	0	1	0	1
INDIANAPOLIS, IN	583056	EXPAND MEDICAL RECORDS FILES	MINOR MIS	08/09/88	0	8	0	8
LAKE CITY, FL	594059	RENOVATE OLD NURSING HOME CARE UNIT,B#62	MINOR MIS	01/31/88	18	645	0	645
SAN DIEGO, CA	664065	CANTEEN SECURITY AND EXPANSION	MINOR MIS	05/29/88	0	2	0	2
SAN DIEGO, CA	664070	GEROPSYCHIATRIC UNIT	MINOR MIS	04/14/88	10	334	37	371
SAN DIEGO, CA	664071	RESEARCH EXPANSION,6 EAST	MINOR MIS	05/29/88	0	3	0	3
SPOKANE, WA	668046	ADD HVAC, 3RD FLOOR,BUILDING 1	MINOR MIS	04/30/88	0	1	0	1
MILWAUKEE, WI	695097	INST.TV OUTLETS PAT RMS.BLDG.111(PH 1)	MINOR MIS	02/15/88	0	1	0	1
Subtotal		NHCU	Project Count :	1	47	1730	287	2017
********		***************	***************	*****	*****	*****	*****	******
LYONS, NJ	604064	240 BED NURSING HOME CARE UNIT	MAJOR	03/10/88	47	1730	287	2017
Subtotal		OUTPAT. IMP.	Project Count :	2	4	167	68	235
********		***************	***************	*****	*****	*****	*****	******
SHREVEPORT, LA	667027	AMBULATORY CARE BLDG/LINEAR ACCELERATOR	MAJOR	12/17/87	3	137	68	205
TUSCALOOSA, AL	679045	OUTPATIENT ADDITION	MAJOR	03/03/88	1	30	0	30
Subtotal		REPL. AND MOD.	Project Count :	3	70	3526	738	4264
********		***************	***************	*****	*****	*****	*****	******
MINNEAPOLIS, MN	615E01	REPL.MED.CTR.(PH 5)FINISH HOSPITAL BLDG.	MAJOR	01/21/88	0	0	500	500
NEW ORLEANS, LA	629C18	EXP.CLIN/OP/R&E(PH2-ADDITION & RENOV.)	MAJOR	11/12/87	0	720	0	720
PHILADELPHIA, PA	642D34	CLIN.ADDN./RENOVATION/240 BED NHCU(PH2)	MAJOR	08/25/88	70	2806	238	3044
Subtotal		SATELLITE OPC	Project Count :	4	60	2565	967	3532
********		***************	***************	*****	*****	*****	*****	******

ANNUALIZATION REQUEST
FISCAL YEAR 1989
(dollars in thousands)

FACILITY	PRJ #	PROJECT TITLE	PROGRAM	COMPDATE	FTEE	TOTAL REC	NON-REC	TOTAL
SAN JUAN, PR	455044	PONCE SAT OPC	MAJOR	06/28/88	29	1313	344	1657
CHICAGO LAKESIDE, IL	535049	CROWN POINT SATELLITE OPC	MAJOR	12/01/87	10	427	403	830
MIAMI, FL	546065	SOPC - OAKLAND PARK, FL	MAJOR	11/28/87	11	486	220	706
MARTINEZ, CA	612071	OAKLAND OPC (EXPANSION)	MINOR	02/28/88	10	339	0	339

CHAIRMAN MONTGOMERY

Question: 7. The Allen Park replacement hospital project is scheduled for construction funding in FY 1989 in the 5 Year Construction Plan. Why didn't you ask for funding for this project in the budget?

Answer: Funding for construction of a new Medical Center in Detroit was not requested in the FY 1989 budget because preliminary plans for this project are not complete. Funding for construction could not be obligated in FY 1989 given this slower than anticipated project schedule.

Question: 8. Please provide a copy of the VA's Capital Facility Study which has been completed according to Ms. Livingstone, ADA for Logistics.

Answer: The VA's Capital Facilities Study initiative was funded in FY 1984 and involved the first coordinated, centrally directed study of the physical plant condition of 132 VA medical centers built prior to 1970. All of the studies were completed by the end of FY 1987 and the analysis of the results just completed in early March 1988. In summary, the studies indicated that the VA's physical plant, particularly given the age of many of the buildings, is in remarkably good condition. The study reviewed the following physical functions:

Site
Architectural
Fixed Equipment
Structural
Fire Protection
HVAC
Plumbing and Sanitation
Steam Generation
Steam Distribution
Electrical
Automatic Transport
Asbestos
Miscellaneous

The studies provided recommendations for correction of deficiencies and provided a magnitude estimate of the work required to meet current VA Standards and conformance to code, fire and safety and JCAH requirements. The "Guidelines for Technical Evaluation of Existing Facilities" used for the studies is transmitted for the Committee with this response. In aggregate and unadjusted figures, the studies found an estimated $1.325 billion needed in corrective action. However, of this amount, nearly 80% of the identified work has either been completed or funded (10%) or planned in the affected medical center's five-year construction plan (69%).

As the analysis of the study results was just completed last week, the final report has not yet been drafted. As soon as it is completed, we will be pleased to share a copy with the Committee.

CONGRESSMAN SOLOMON

QUESTION 1: Regional officers in the Department of Veterans Benefits are not now meeting DVB's timeliness standards in a number of instances. You have a hiring freeze on at this time and your budget request for 1989 calls for a reduction in employees in the Regional Offices. What is going to be the impact in terms of quality of service?

ANSWER 1: Several initiatives currently under way are expected to increase productivity and improve service provided to veterans. This should result in decreased employment and funding requirements in 1989. These initiatives include the Loan Production System, the Hearing Officer proposal, and the DVB-DM&S Data Exchange project, plus others. The Department expects to be able to meet its responsibilities with the funds provided in the 1989 President's Budget.

Question 2: One of the VA's proposals is part of a credit reform in the Loan Guaranty Program which would involve payments to a central revolving fund administered by the Treasury Department.

Question 2a: Please explain to the Committee the rationale for the credit program reform and explain in detail how the amounts to be sent to the Treasury revolving fund would be determined.

Response 2a: The Administration's credit reform proposal identifies the most accurate cost of Federal credit programs by estimating the present value of the subsidy inherent in most direct and guaranteed lending programs. The omission of subsidy costs from the budget understates the long term costs of the Government's credit programs. This proposal would:

- put the cost of credit programs on a expenditure basis equivalent to other Federal spending;
- measure accurately and equitably the subsidies provided by Federal credit programs;
- encourage delivery of benefits in the form most appropriate to the needs of the beneficiaries;
- improve the allocation of resources among credit programs and other forms of spending.

The proposal would accomplish these goals by charging the economic cost of credit - the subsidy cost - to any agency making or guaranteeing loans.

Under the Administration's proposed Credit Reform Act, two new Federal credit revolving funds would be established within the Department of Treasury - one for the financing of direct loans and the other for guaranteed loan insurance. Federal agencies would be required to obtain appropriations from Congress for the subsidy costs of the direct loans and loan guarantees they intend to make. Agencies would continue to originate and close direct loans and make loan guarantees as they do now.

In the case of the Home Loan Guaranty program, the grant-equivalent subsidy is the present value of the difference between the net cash flow that the borrower pays under the terms and conditions of the

Federal program and the net cash flow under the terms and conditions of financing for a similar loan from a private lender. The comparison included factors such as interest rate, downpayment percentage, grace period, funding fee and default cost. This method is described in detail in OMB Circular A-70.

The loan guaranty serves a substitute for private mortgage insurance for loans with loan to value ratios of greater than 80 percent. (In the case of most guarantees where the veteran makes no down payment, the loan equals the appraised value of the home so the loan to value ratio is 100 percent.) The cost of obtaining this type of private mortgage insurance was obtained by surveying private lenders and consulting mortgage insurance companies. The net present value of the cost of this mortgage insurance, which is required until the home owner has at least a 20 percent equity stake in the property, equals 6.6 percent in FY 89.

Although a legislative proposal has not been transmitted to Congress at this time, it is our understanding that if Credit Reform is enacted, it would operate in the following manner. As the VA guarantees a loan, the subsidy amount would be transferred to the Guaranteed Loan Subsidy Account at Treasury. In addition, the current one percent funding fee would also be transferred. The Treasury guaranteed loan account would fund any future costs resulting from this guaranty. These costs would include property acquisition, claim payments and other costs currently funded by the Loan Guaranty Revolving Fund.

In summary, it is important to remember two things: First, the Treasury guaranteed loan subsidy account would fund costs and receive receipts from guarantees made after enactment of credit reform. The Loan Guaranty Revolving Fund appropriation would continue to finance guarantees made prior to enactment of credit reform. Second, the proposal is program neutral. Both the VA's role in the operation of the home loan program and the veteran's ability to obtain a guarantee would remain unchanged.

Further details on the Credit Reform proposal will accompany the Administration's proposed legislation.

Question 2b: How much money will need to be appropriated for VA in fiscal year 1989 if the Congress approved this proposal?

Answer 2b: Enactment of the Credit Reform proposal would require the following appropriations (dollars in thousands):

Loan Guaranty Revolving Fund Subsidies	$1,337,100
Direct Loan Revolving Fund Subsidies	150
Vocational Rehabilitation Revolving Fund Subsidies	100
Total appropriations	$1,337,350

NOTE: This total anticipates enactment of legislation repealing the authority to make education loans from the Education Loan Fund. If such legislation is not enacted, $3 thousand would need to be provided in the Education Loan Fund Subsidies appropriation.

CONGRESSMAN SOLOMON

QUESTION 3: In light of the Loan Guaranty Program appropriation requirements of over $900 million for FY 1988, is $658 million going to be enough for FY 1989, and is the smaller FY 1989 request based on a forecast of fewer foreclosures for FY 1989?

ANSWER 3: The $658 million appropriation requirement for FY 1989 will be sufficient to support program costs in the next fiscal year. We are estimating that the number of foreclosures will decrease from FY 1988 to FY 1989 due to a fall-off in defaults reported to the agency.

QUESTION 4: Why does the VA want to repeal Public Law 100-203, which allows it for two years to sell loan assets with or without recourse based on the Administrator's determination of which method of sale is most effective for the program?

ANSWER 4: The VA does not want the current law to be repealed. Our intent is to ensure that the Administrator has discretion to sell loan assets in a manner which he finds to be cost-effective. The VA supports the Administration's loan asset sales program that has these primary objectives:

- o Reduce the Government's cost of administering credit by transferring servicing, collection, and other administrative activities to the private sector;
- o Provide an incentive for agencies to improve loan origination and documentation;
- o Determine the actual subsidy of a Federal credit program;
- o Increase unified budget offsetting collections in the year of the sale.

In the long run we feel that non-recourse sales will contribute to the stability of the Loan Guaranty Revolving Fund promoting improved credit management practices and limiting the Government's future liability.

Question: 5. The hemodialysis workload is being transferred from the inpatient to the outpatient workload. Does that account for the increase in the outpatient workload from 22.9 million to 23.1 million visits?

Answer: The increase in outpatient workload of 211,000 visits in FY 1989 is the workload associated with facility activations, not dialysis. For consistency the 1987-1989 workload and resource data presented in the 1989 President's budget request have all been adjusted to reflect the impact of the reclassification of one-day dialysis from inpatient to outpatient.

Question: 6. Press stories indicate that the IG has found that in the CHAMPVA program for dependents that 37% of the patients treated between 1982 and 1986 were not eligible and that over $66 million was improperly spent. Will you please comment on this matter?

Answer: The two previous 1982 IG audits determined "that a large number of ineligibles were enrolled in CHAMPVA, and recommended that DM&S develop an accurate and complete listing of eligible CHAMPVA beneficiaries." The 1987 follow-up IG audit reinforced this same theme. DM&S concurred with these recommendations, and has taken aggressive remedial action to correct this problem, as is evidenced by our major effort, initiated 18 months ago, and in progress, to "sanitize" the inventory of beneficiaries.

The $66 million figure contained in the press stories does not correlate with the figures contained in the IG report which claims that the VA paid about $40.7 million for direct care provided to ineligibles. This $40.7 million includes an estimated $8.6 million paid for the care of CHAMPUS eligibles.

The balance of claims paid was for medical care to widows, spouses and the children of disabled veterans. Had VA not paid these claims, some other Federal Agency (Medicare, DoD, Medicaid) may have been liable for the claims.

CONGRESSMAN SOLOMON

QUESTION 7: The 1989 budget proposes a reduction of 11 FTEE from the Vocational Rehabilitation and Counseling program. Our Committee's data on the program indicates an increased workload for the vocational rehabilitation specialists, and longer processing periods for program applicants and participants. The workload for the vocational rehabilitation specialist has steadily risen over the past years and reached 195 by the end of 1987. A reasonable workload for each specialist has been stated to be 150 cases. Please provide the justification for making the reductions in FTEE?

ANSWER 7: Workload projections indicate workload will remain steady or decline slightly between FY 1988 and 1989. The implementation of the Computer Assisted Information System (CAIS) with employee training will help to improve timeliness. The projected FTEE for 1989 including the 11 FTEE reduction represents the best allocation of personnel resources available to administer the benefit delivery system.

CONGRESSMAN EVANS

Question: 1. The budget proposed a decrease of 79 FTEE and $4.7 million for the vet center program. The budget contains no explanation or justification for these major reductions.

1A. Can you tell us why these reductions are being proposed?

Answer: As indicated in the President's budget, "The reduction in this program is the result of the expected decreases in utilization of the present program and organizational structure."

Question: 1B. Can you tell us how these reductions would be implemented if they were approved?

Answer: As indicated in the budget language, "...there will be changes in staff levels at some centers based on caseload, closing of other centers and relocation of the readjustment counseling operations at some sites from a community-based Vet Center to a VA medical facility. In addition, the contracts portion of the program will be gradually decreased."

Question: 1C. Would Vet Centers be closed?

1D. Which centers would be closed?

1E. How Many?

1F. How would they be selected?

1G. What criteria would be used?

Answer: Some vet centers would be relocated.

QUESTION 2: The proposed budget for next fiscal year includes colocating the Montgomery Regional Office. I understand the colocated Montgomery Regional Office as proposed in the budget has been reduced in terms of size and cost from earlier projections. Specifically, I understand the project currently proposed won't accommodate current FTEE. Please compare the size of the current regional office and the proposed colocated regional office and provide the cost for a colocated regional office of the same size as the current regional office.

ANSWER 2: The size and cost of the Montgomery Regional Office colocation project as submitted in the FY 1989 budget reflects the following adjustments to earlier projections:

a. Projected Staffing Level -	Current projections for the year of activation (FY 1991) are for a staffing level of 258, which includes the current estimate for DVB as well as offices for the general counsel and veterans service organizations.
b. Space-saving Furniture -	The use of space saving furniture has allowed a more efficient use of space in accordance with current space regulations.
c. Construction Cost Reduction -	Value engineering techniques have reduced construction costs from $125.00/square foot to $109.13/square foot.
d. Site Change -	An estimated $450,000 has been saved in site development costs by changing the site of the building and the parking lot.

These adjustments have enabled us to reduce the building's net useable square footage from 58,696 to 47,882 thereby reducing building costs from $7,522,000 to $5,400,000. The total project cost has dropped from $9,100,000 to $6,600,000.

CONGRESSMAN DOWDY

QUESTION 1: Counseling under Chapter 106 has dropped significantly since 1985, from 104 counseled in FY 1985 to 51 counseled in FY 1987. At the same time, the number of individuals training under Chapter 106 has increased dramatically to over 80,000.

I understand that the Office of Management and Budget insisted that the Veterans Administration eliminate all reference to the availability of counseling on applications for educational assistance benefits. Did this action contribute to the reduction in counseling? What else accounts for this disturbing situation?

ANSWER 1: Counseling provided to participants in chapter 106, Title 10, for the years 1985, 1986 and 1987 have been 104, 77, and 51 respectively. While this may be ascribed to the lack of opportunity to apply for counseling on the application for benefits, it is difficult to make this assumption based upon the small numbers involved. In each of these three years, counseling provided to Chapter 106 trainees represents less than one percent of the vocational rehabilitation program workload. In addition, reservists remain in their home communities and are more familiar with educational opportunities and programs and therefore better able to develop their own programs without counseling assistance.

QUESTION 2: What increases in FTEE would be necessary to achieve a reasonable case load for counseling psychologists and vocational rehabilitation specialists? I understand that public sector vocational rehabilitation specialists consider 150 to be a reasonable caseload with 120 the ideal. For counseling psychologists the ideal caseload is 20 to 22.

ANSWER 2: The average number of cases supervised by vocational rehabilitation specialists at the end of February 1988 was 182.5, an improvement from 195 at the end of October 1987. This represents a total of 30,519 veterans who have been found entitled to services under chapter 31. As indicated in the question, the ideal number of cases for a counseling psychologist to complete in a month is 20 to 22 cases. The psychologist may of course be actively working with many more than this number as the evaluation process requires multiple counseling appointments before developing a comprehensive service plan or IWRP. Every effort is being made to meet ideal case loads through improved management and automated systems such as the Computer Assisted Information System (CAIS).

QUESTION 3: In the past, this Committee has increased and/or restored FTEE for VR&E. VA data does not reflect these increases. Why?

ANSWER 3: VA employment data shows that while DVB will be reduced 11.1 percent from 1984 staffing levels Vocational Rehabilitation will be less effected with a 5.1 percent reduction.

CONGRESSMAN DOWDY

QUESTION 4: I am disturbed that the VA characterizes the service to veterans pursuing vocational rehabilitation as adequate. VA data shows that veterans are in applicant status an average of 90 days and in employment status an average of 255 days. The VA budget documents assert that the requested FTEE level for 1989 (a decrease of 11 FTEE) will provide "continued good service to our veterans." In my view, current service is unacceptable. How do you define "good service" and how can you justify an FTEE reduction with these timeliness statistics?

ANSWER 4: The Department expects to be able to meet its responsibilities with the resources provided in the 1989 President's Budget. The timeliness of vocational rehabilitation service delivery will improve from the level cited for FY 1987 due to slight declines in workload, increased automation through the Computer Assisted Information System and productivity improvements due to more training.

QUESTION 5: I am very concerned about the implementation and administration of the Montgomery GI Bill - Chapter 30. As you indicated in your budget document, trainees under this program are going to skyrocket this fall. Additionally, we are requiring veteran trainees under this program to certify their school attendance monthly, which will be a significant new burden on DVB personnel. What action are you taking to ensure that this program is administered efficiently? Will the VA be fully prepared to handle the anticipated number of trainees?

ANSWER 5: Montgomery GI Bill trainees are expected to increase from about 20,000 in this fiscal year to about 40,000 trainees in FY 89. We are confident that the Chapter 30 workload can be managed efficiently. In April of this year, claims processing will be integrated into the Target benefits delivery system. Integration into this nationwide data base will contribute to more efficient claims processing in comparison to the current personal computer data base system.

At this time, the processing of Chapter 30 claims is concentrated in the St. Louis regional office. This approach was taken in order to minimize any processing problems before the program was spread to other regional offices. In addition to concentrating the program in one office, a number of research and development projects are underway which may have wider effects on benefit delivery programs. These include testing of an optical disk filing system which would eliminate the need for storage of paper files. Monthly verifications of student pursuit are also being evaluated for this program as part of our overall debt management and prevention strategy. In order to quickly process the monthly verification workload, a form scanner which will machine read monthly verifications is also being tested. At the same time, a study of the monthly verification process is underway to determine if monthly verification by trainees is cost-effective.

The agency will be able to manage the Chapter 30 workload efficiently. A number of contingency plans are in place to process claims if quality or timeliness of benefit delivery deteriorates.

CONGRESSWOMAN KAPTUR

The fiscal year 1989 budget reflects a deficiency of $526.6 million in the Loan Guaranty Program, and I understand a supplemental is imminent. I believe this would be in addition to the nearly $400 million appropriated thus far this fiscal year, for a total of over $900 million.

QUESTION 1: Is the $526.6 million adequate for the remainder of this fiscal year, and, if so, can you elaborate on the steps you are planning to take to ensure this amount will suffice?

ANSWER 1: We anticipate that the $526.6 million request will be sufficient for the 1988 fiscal year. The substantial increases in the cost of the VA home loan guaranty program over the past 10 years have come not from staff and operating costs (GOE), but claims made against the Loan Guaranty Revolving Fund, due to increasing numbers of defaults and foreclosures.

We are addressing these problems on several fronts. In FY 1987 we made a significant improvement to our approach to credit underwriting. We established regional minimum required residual incomes for individuals and families by size. In addition we required that field stations calculate ratios of total monthly debt to gross monthly income to provide greater scrutiny of high-risk loans. We believe that the continuation of the one percent funding fee will help offset program costs. Since most veterans finance the fee over the life of the loan, this fee does not pose an undue hardship on them.

VA is planning a pilot test of the impact of increased levels of servicing on loan foreclosure rates. Additional loan service technicians will be hired in one regional office, to determine the cost/benefit relationship between additional loan servicing and reduced claims.

The cost of liquidation appraisals, formerly paid from the Revolving Fund, is now paid by the lender, and included in the lender's claim, which may be recovered from the borrower through the debt collection process.

Steps have been taken to shorten time of foreclosure on loans in insoluble default, thus reducing VA's holding time and costs substantially.

Once claims are paid and properties acquired, property management costs can be reduced by selling the properties promptly. A number of steps are being taken to speed this marketing effort: increased brokers' commissions and bonuses for cash sales; use of private sector property listing services; computer based "bulletin boards" to speed up distribution of property listings to local brokers; auction sales where appropriate; increased discount for cash sales, etc. VA will also conduct a test on contracting out the property management and sales function on 10% of our inventory.

In addition to these efforts, a major automation program is underway within the VA home loan program. When implemented, this new system will enable VA to serve veterans in a more efficient, cost effective manner than was previously possible.

Also, we are taking the following actions to maximize receipts in 1988. The Agency will attempt to sell 11,119 more properties than were sold in 1987. The number of property sales is expected to reach a level of 45,210, with nearly 48 percent being sold on a cash basis. These cash sales are estimated to provide nearly $890 million. Of the 21,644 cash sales, 4,800 properties are planned to be sold at auction and 1,200 properties at special liquidation prices. The balance of the properties sold will be on a vendee basis and will generate net loan sales of $651.8 million. In addition, the Agency will attempt to sell $300 million of older portfolio loans, netting $150 million.

CONGRESSWOMAN KAPTUR

QUESTION 2: Fiscal year 1987 was a record year in property sales, with over 34,000 sold. What steps do you envision will be necessary to ensure the projected level of 45,000 property sales can be achieved?

In what main regions of the country do you project these sales will occur?

ANSWER 2: To achieve 45,000 property sales during FY 1988 it will be necessary for VA regional offices to sell approximately 95 percent of projected acquisitions, using their principal and customary sales technique - individual sales arranged through local private sector real estate brokers. In addition, it will be necessary to use public auctions much more extensively than VA has in the past (approximately one auction per week from April through July), as well as to use liquidation sales. Liquidation sales involve a substantial reduction of minimum acceptable prices on a large number of properties at the same time and for a limited period of time. Offers are submitted through individual real estate brokers, and decisions on best offers are made quickly and announced simultaneously.

To be successful in achieving these sales figures, the sales techniques mentioned above will need to be utilized in all regions of the country where VA has acquired or will acquire substantial numbers of foreclosed properties. The only regions in which auctions and liquidation sales would probably not be appropriate, because of the relatively small numbers of acquired properties, would be New England and the mid-Atlantic regions.

CONGRESSWOMAN KAPTUR

QUESTION 3: What is ratio between the number of properties in custody and the number of employees nationwide? For Houston, Texas? For Denver, Colorado? If inequities exist, why is this the case?

ANSWER 3: The ratio of the number of properties in custody to the number of available property management employees (FTEE), nationwide, is 95:1. The ratio at the Houston Regional Office is 190:1. The ratio at the Denver Regional Office is 278:1.

The allocation of employment resources within regional offices must be measured against the needs of all the other benefit programs and support elements at the regional offices. The number of FTEE per property is only one of many considerations in distributing employment. We expect there to be differences in this ratio because offices vary as to experience of the work force, geographic jurisdiction, effectiveness of fee management brokers, etc.

QUESTION 3A: In light of recent legislation affecting the home loan program which creates additional workload, how can these initiatives be accomplished with a reduction in employment?

ANSWER 3A: The Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987 (Pub. L. 100-198), made numerous changes to the GI home loan program. Many of these changes, e.g., extension of the funding fee, two tier guaranty percentage, five-percent downpayment on manufactured homes, revised occupancy requirements for military personnel, etc., do not require additional employment to implement. Policy and procedural directives, regulation changes, and automation of manual processes are being accomplished by the Central Office staff. We believe that the provisions of this bill can be fully implemented with the employment level requested in the budget submission.

QUESTION 3B: In view of the high volume of foreclosures and property acquisitions experienced during fiscal year 1987, has there been a shift in resources allocated to these functions?

ANSWER 3B: Yes, more resources have been shifted from the appraisal and loan origination functions to loan servicing and property management. In June 1987, 43 percent of the available FTE was allocated to the appraisal and loan processing functions while 57 percent of the FTE was assigned to loan servicing and property management. In January 1988, total resources realigned and the front end of the program received less employment for a total of 40 percent, while the back-end increased and received a total of 60 percent.

QUESTION 3C: How are resources allocated for the Loan Guaranty program?

ANSWER 3C: The allocation of resources to our field activities is not specifically based on individual program issues. Rather, field stations are funded based on the mix of benefit delivery activities provided by each particular station. Our Budget Distribution Process allocates funds to stations using the ratio of anticipated workloads at the particular station to the anticipated workload for the country. In this way a field station receives proportional funding for their total benefits delivery workload, which would include any unusual needs in a program area.

CONGRESSMAN PENNY

QUESTION 1: I understand that a toll-free phone line has been installed at the Philadelphia Insurance Center that will be servicing policyholders from throughout the country. I am glad to know that the hours at Philadelphia have been extended in order to accommodate veterans in other time zones. However, I would like to know why the toll-free line is being operated only from Philadelphia and the extent to which Philadelphia employees will be working cases that are on file in St. Paul. How will this affect productivity and timeliness in both offices?

ANSWER 1: Our current target date for installing toll-free service for our insurance programs is April 4, 1988. Like the Centralized Accounts Receivable 800 number in St. Paul, the service will be available on a nationwide basis to all policyholders and beneficiaries. The insurance specialists assigned to the toll-free unit will provide a complete response to every request for information or service whenever possible. If the information needed to respond is not in our ADP system, the case will be referred to the appropriate operating element in St. Paul or Philadelphia for further action.

As a result of this initiative, we expect to make significant improvements in the quality and timeliness of the service that we provide to policyholders and beneficiaries. In most cases we expect to be able to provide a complete response in a matter of minutes to requests that would normally take 6 to 10 days if we received a written inquiry. We also expect to achieve an increase in the program's productivity as we replace the processing of written inquiries and responses with phone calls.

CONGRESSMAN JIM JONTZ

Question: 1. My first area of concern involves the outpatient clinic in Crown Point, Indiana. The completion date for this facility was to be February of this year. Unfortunately, this date has not been met. Any information you can provide about the status of the clinic and what is being done to expedite the opening of this facility, would be appreciated. As you know, this clinic will play a very important role in meeting the health care needs of the veterans of Northwest Indiana.

Answer: Although the VA accepted the clinic for beneficial use in November 1987, the clinic is expected to open in June of 1988. The original activations date was delayed pending the installation of telecommunication, ADP, and other equipment.

Two areas of concern are the delivery and installation of our radiology equipment and the procurement of a telephone system. Though we do not anticipate our radiology suite to be fully operational until mid-August, we do not foresee this preventing us from opening the clinic. We are presently exploring other temporary alternatives including the use of portable x-ray systems, transporting patients to our medical center for tests and on a case-by-case basis, the use of fee-for-service arrangements with a local hospital.

Question: 2. My second question involves the budget for the V.A. Medical Center in Marion, Indiana. It is my understanding that the budget has been cut by as much as $1.35 million. Can you relay to me the reason for the cut, the expected impact on the ability of the facility to meet the veterans it serves, and what steps have or will be taken to insure that patient care does not decline?

Answer: The budget for the VA Medical Center in Marion, IN, for FY 1988 has not been cut. In fact, the current year budget is larger than it has been in previous years. We understand that a newpaper article, dated February 10, 1988, reported a $1.35 million shortfall at the VA medical center. Medical center management did not provide the information to the newspaper. The dollar amount was provided by an unknown source and has no identifiable factual basis.

In the process of managing resources at the medical center level, internal review of costs, reprograming of funds, and redeployment of staff are steps frequently taken to be sure that resources are applied in the most effective manner. We understand that such adjustments have occurred at Marion in a manner that protects both the quantity and quality of patient care services provided to eligible veterans.

CONGRESSMAN EVANS

Question:	1. The Administration's budget proposes legislation to index compensation benefits to the annual change in the Consumer Price Index (CPI). At the same time, the Administration has proposed an increase of only 2 percent for the medical care budget while the cost of medical care (medical CPI) is projected to increase by 7 percent. Why does the Administration propose legislation to provide indexation of compensation benefits, but does not propose an increase of sufficient size for the medical care budget to provide indexing?
Answer:	The 1989 President's budget request for the Medical Care appropriation provides a level of funding which will cover increased costs associated with inflation. There were two inflation rates used to determine the 1989 inflation increase in the Medical Care appropriation. These rates are based on economic assumptions provided by OMB. An inflation rate of 6.1 percent was used to calculate the increase for medical commodities; this was applied to specific medically related objects of expense. The Federal Non-defense, Non-pay purchase deflator of 3.9 percent was applied to non-medical related objects of expense (e.g. travel, transportation, printing, etc.). The composite inflation rate (resultant percentage increase of resources required for inflation after both rates are applied to the appropriation) for 1989 is 5.8 percent, which is applied only to non-payroll related purchases and represents 38 percent of total obligations. Personnel compensation and benefits, which represent the other 62 percent of total obligations, were partly adjusted for increased pay and partly adjusted for expected increases in productivity. The end result was an overall increase of 2 percent. The legislative proposal to automatically index compensation rates to the annual changes in the Consumer Price Index would avoid recent delays experienced by service-connected veterans and their survivors in receiving timely adjustments to their compensation payments. This delay is the result of delays in enacting legislation increasing the compensation rates. For instance, legislation increasing the compensation rates by 4.2 percent was enacted on December 31, 1987. While the effective date for the rate increase was December 1, 1987, delays in enacting the legislation resulted in compensation recipients receiving their initial payment increase in their March 1988 checks. A similar delay occurred two years ago when legislation increasing the compensation rates was enacted on January 13, 1986. Enactment of the indexing legislation would ensure that compensation recipients receive full and timely COLA increases, in the same manner as pension and social security recipients.
Question:	2. Please identify and describe by function and budget all FTEE reductions requested by the Veterans Administration in the agency's submission to OMB. Please compare by function and budget the FTEE reductions contained in the President's budget to the FTEE reductions contained in the agency's submission to OMB.
Answer:	The following table describes the FTEE reductions from 1988 in the VA's 1989 Submission to OMB and the President's Budget.

	VA OMB Submission	President's Submission
Function 703: Hospital and medical care for veterans:		
	-2,123	-4,043
Function 705: Other veterans benefits and services:		
	- 361	- 562

CONGRESSMAN LANE EVANS

Question: 3. Please provide a copy of the completed Capital Facilities study mentioned by Ms. Livingstone.

Answer: The VA's Capital Facilities Study initiative was funded in FY 1984 and involved the first coordinated, centrally directed study of the physical plant condition of 132 VA medical centers built prior to 1970. All of the studies were completed by the end of FY 1987 and the analysis of the results just completed in early March 1988. In summary, the studies indicated that the VA's physical plant, particularly given the age of many of the buildings, is in remarkably good condition. The study reviewed the following physical functions:

Site
Architectural
Fixed Equipment
Structural
Fire Protection
HVAC
Plumbing and Sanitation
Steam Generation
Steam Distribution
Electrical
Automatic Transport
Asbestos
Miscellaneous

The studies provided recommendations for correction of deficiencies and provided a magnitude estimate of the work required to meet current VA Standards and conformance to code, fire and safety and JCAH requirements. The "Guidelines for Technical Evaluation of Existing Facilities" used for the studies is transmitted for the Committee with this response. In aggregate and unadjusted figures, the studies found an estimated $1.325 billion needed in corrective action. However, of this amount, nearly 80% of the identified work has either been completed or funded (10%) or planned in the affected medical center's five-year construction plan (69%).

As the analysis of the study results was just completed in early March, the final report has not yet been drafted. As soon as it is completed, we will be pleased to share a copy with the Committee.

Question: 4. The proposed budget requests initial funding for development of a much needed Satellite Outpatient Clinic for the Quad Cities, Illinois and Iowa. Specifically, how will these requested funds be used during fiscal year 1989 and what is expected to be accomplished in support of the Quad Cities OPC?

Answer: The proposed amount to be expended in FY 1989 is $330,000. These funds will be used to cover a one time payment to the lessor to cover the cost associated with special purpose items (e.g., fume hoods, cabinetry, fixtures, etc.) thus making the space leased suitable for a medical clinic.

Question: 5. I'm very concerned about the continuing vacancy in the position of Team Leader at the Vet Center in Moline, Illinois. The vacancy was created when Mr. Byron Coghlan, the former Team Leader, was appointed Regional Director of Region 2 in July, 1987. This vacancy has now existed for nine months. Why is this position still vacant and when will this vacancy be filled?

Answer: The vacancy for team leader at the Moline Vet Center has been the focus of ongoing and recurring recruitment efforts. The recruitment procedures undertaken include national level announcement for candidates throughout the VA system, and through the national register maintained by OPM for social workers and psychologists. Recruitment through the national register includes qualified professionals who are outside the federal employment system. In addition, Readjustment Counseling Service (RCS) regional officials undertook a commercial media campaign by advertising in many major midwest newspapers. These efforts resulted in the identification of 13 interested candidates of which 2 had the necessary and appropriate credentials. However, both of these candidates had recently accepted other positions. Please be assured that RCS regional officials will fill as soon as possible this vacancy through continued recruitment and interviewing of candidates.

CONGRESSMAN EVANS

QUESTION 6: Last October there was a meeting in Chairman Montgomery's office on colocation. At this meeting, attended by General Turnage, GSA Administrator Golden and others, there were indications the VA and GSA would work together more cooperatively in the future on colocation. Is this cooperation occuring and can you provide examples of this cooperation if it is occurring? Have VA and GSA had any meetings on colocation since last October? How many times have VA and GSA met on colocation since last October? What has been discussed at these meetings and what progress or results have occurred?

ANSWER 6: Cooperation between the GSA and the VA on colocation is occurring. Although differences of viewpoint on backfill potential of space to be vacated by VA in colocation projects still exist, staff cooperation between GSA and VA has been direct and responsive within the guidelines of both Agencies' overall mission requirements.

No face-to-face meetings between GSA and VA personnel have been held since the October 22, 1987, meeting with Chairman Montgomery, Congressman Solomon and yourself. As on-hand information needed clarification or update, staff telephone contacts were used. VA resources have principally been applied to preparing colocation projects for FY 1988-1989 budget submissions and/or construction for Wichita and Montgomery and design for Cleveland and Hartford. A point-of-contact in the GSA has been identified to assist VA in planning and development of colocation and address its impact on GSA operations.

CONGRESSMAN EVANS

Question:	7. In the budget originally proposed for the current fiscal year (fiscal year 1988), the net operating income of the Canteen Service was estimated to be $339 thousand this fiscal year. In the budget just proposed for fiscal year 1989, the current estimate of Canteen Service net operating income in fiscal year 1988 is now $2.728 million. This is a considerable difference, an increase by more than 8 fold. Can you offer an explanation for this change in estimates?
Answer:	While the increase in net income seems large in absolute terme, as a percentage of sales, it is a change from two-tenths of one percent to one and one-half percent. The reason for the increase is that initially we anticipated higher operating expenses than was the case. For example, we projected higher cost of sales, assuming we would embark on the purchasing of a more expensive product line and we overestimated the cost of the new FERS (retirement system) based on OMB's initial government-wide projection that 40% of employees would convert to the new retirement system.
Question:	8. The budget proposed for next fiscal year shows a decrease for the Canteen Service in the cost of goods sold as a result of a reduction in tobacco sales. At the same time an increase in net income is projected and no reduction in FTEE is expected according to the budget. Isn't it true that a reduction in net income, a reduction in FTEE or a reduction in both is possible as a result of reducing tobacco product sales? Are you telling us in this budget that there won't be a reduction in net income, FTEE or both with a reduction in tobacco product sales? What other adjustments could result from a reduction in tobacco product sales?
Answer:	We anticipate the recoupment of managerial positions in VA Central Office that had not been filled due to the reorganization. In addition, we expect to expand our service due to numerous remodeling and hospital activations, which will both increase sales and FTEE usage.

CONGRESSMAN DOWDY

Question: 1. What increases in FTEE would be necessary to achieve a reasonable case load for counseling psychologists and vocational rehabilitation specialists? I understand that public sector vocational rehabilitation specialists consider 150 to be a reasonable caseload with 120 the ideal. For counseling psychologists the ideal caseload is 20 to 22.

Answer: The average number of cases supervised by vocational rehabilitation specialists at the end of February 1988 was 182.5, an improvement from 195 at the end of October 1987. This represents a total of 30,519 veterans who have been found entitled to services under chapter 31. Based on the above information a reasonable caseload level of 150 would result in an increased FTEE of 35. As indicated in the question, the ideal number of cases for a counseling psychologist to complete in a month is 20 to 22 cases. The psychologist may of course be actively working with many more than this number as the evaluation process requires multiple counseling appointments before developing a comprehensive service plan or IWRP. Every effort is being made to meet ideal case loads through improved management and automated systems such as the Computer Assisted Information System (CAIS).

Question: 2. In the past, this Committee has increased and/or restored FTEE for VR&E. VA data does not reflect these increases. Why?

Answer: VA employment data shows that while DVB will be reduced 11.1 percent from 1984 staffing levels Vocational Rehabilitation will be less effected with a 5.1 percent reduction. No increases are shown from 1984 since overall DVB employment has declined. However, actions by the Committee have ensured that the Vocational Rehabilitation program has received a relatively higher employment level within the Department.

Question: 3. I am disturbed that the VA characterizes the service to veterans pursuing vocational rehabilitation as adequate. VA data shows that veterans are in applicant status an average of 90 days and in employment status an average of 255 days. The VA budget documents assert that the requested FTEE level for 1989 (a decrease of 11 FTEE) will provide "continued good service to our veterans." In my view, current service is unacceptable. How do you define "good service" and how can you justify an FTEE reduction with these timeliness statistics?

Answer: The Department expects to be able to meet its responsibilities with the resources provided in the 1989 President's Budget. The timeliness of vocational rehabilitation service delivery will improve from the level cited for FY 1987 due to slight declines in workload, increased automation through the Computer Assisted Information System and productivity improvements due to more training. Timeliness will be improved within the reduced employment level and service is expected to be maintained at a high level of quality.

CONGRESSWOMAN KAPTUR

DEPARTMENT OF MEMORIAL AFFAIRS

QUESTION 1: The fiscal year 1989 budget reflects a steadily increasing workload in interments with a constant level of employment. How can we be assured of a sustained level of quality which has traditionally been associated with this program?

ANSWER 1: The quality of interments and gravesite maintenance will not be adversely affected by the constant level of staffing reflected in the President's 1989 budget. The Department's number one priority is to provide for dignified interments in our national cemeteries. When necessary, other cemeterial resources are redirected to support this activity. The Department's quality standards for gravesite maintenance have also been maintained due to modern technology and other management improvements. These efforts have resulted in increased productivity over the past years and thus reduced the need for additional staffing.

QUESTION 2: In a letter dated December 27, 1987, you advised the Chairman of a report submitted by the Advisory Committee on Cemeteries and Memorials which recommended that the VA assume operating responsibility for the Arizona State Veterans Memorial Cemetery. On February 4, 1988, the Chairman wrote the VA requesting its position on the Advisory Committee's recommendations, and to date, the Committee has not received a reply. What is your official position on this proposal?

ANSWER 2: The VA's official position is that the Arizona State Veterans Cemetery should not be acquired by the Federal Government. The letter, which the committee should have received by now, describes the reasoning behind this position.

QUESTION 3: How does the Department of Memorial Affairs plan to use additional VADATS funds in fiscal year 1989?

ANSWER 3: The additional VADATS funding requested in 1989 will provide enhanced automated communications facilities between our national cemeteries, area offices, and VA Central Office. The services provided are to be a communications load comprised of incoming and outgoing messages between various DMA facilities and between the VA central data bases and departmental data bases. These additional resources will address the Department's desire to have the same basic systems consistency as currently exists within the rest of the agency.

CONGRESSWOMAN KAPTUR

Loan Servicing

Question: Appropriation language provided $1 million in funds to be used in the area of loan servicing. Have additional resources been dedicated to this effort?

Answer: VA is planning a pilot test of the impact of increased levels of servicing and housing counseling assistance on loan delinquency and foreclosure rates. Ten additional loan servicing technicians will be hired in the Houston Regional Office to determine the cost-effectiveness of an additional level of servicing and reduced foreclosures. Analysis of the pilot test data should enable the Department to more efficiently allocate resources in the loan servicing function.

Loan Sales

Question: I understand the VA has hired a financial consultant to assist in the sale of loan assets without recourse. Could you please provide a copy of the contract with the financial advisor and a timetable outlining steps already taken and anticipated action in this regard.

Answer: On January 12, 1988, VA awarded a contract to Kidder, Peabody & Co., Inc., to act as financial advisor in connection with FY 1988 non-recourse sales of loan assets.

On March 3, 1988, VA selected Salomon Brothers and First Boston Corporation as senior managing underwriters for FY 1988 non-recourse sales. Merrill Lynch & Co., Goldman Sachs & Co. and Shearson Lehman Hutton Inc. were selected as co-managing underwriters and a ten percent management role was reserved for minority and/or women-owned underwriting firms.

The following is a tentative schedule of steps planned in connection with a June 1988 sale:

Week of:		
	3/28/88	Initial drafts of financing documents will be distributed to all parties for comment. Begin overview meetings with rating agencies (Moody's and Standard and Poor).
	4/4/88	Document drafting sessions.
	4/11/88	Select master servicer, auditor and trustee.
	4/18/88	File Shelf Registration statement with the Securities and Exchange Commission (SEC).
	5/9/88	Amend SEC Shelf Registration statement. Receive ratings from rating agencies. Select minority/women-owned underwriting firms.
	5/16/88	SEC declares Shelf Registration effective. Securities are priced. Loan sale and underwriting agreement is executed.
	5/30/88	Sale is closed. Tentative settlement scheduled for June 2.

A copy of VA's contract with Kidder, Peabody is attached.

AWARD/CONTRACT

1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350) ▶ RATING

PAGE 1 OF 34 PAGES

2. CONTRACT (Proc. Inst. Ident.) NO. V101(93)P-1181

3. EFFECTIVE DATE 1/12/88

4. REQUISITION/PURCHASE REQUEST/PROJECT NO. RFP 101-3-88

5. ISSUED BY CODE 93B

VETERANS ADMINISTRATION
OFFICE OF PROCUREMENT AND SUPPLY]
810 VERMONT AVE. NW
WASHINGTON, DC 20420

6. ADMINISTERED BY (If other than Item 5) CODE

7. NAME AND ADDRESS OF CONTRACTOR (No., street, city, county, State and ZIP Code)

KIDDER, PEABODY AND CO., INC.
10 HANOVER SQUARE
NEW YORK, NY 10005

CODE FACILITY CODE

8. DELIVERY ☐ FOB ORIGIN ☐ OTHER (See below)

9. DISCOUNT FOR PROMPT PAYMENT N/A

10. SUBMIT INVOICES (4 copies unless otherwise specified) TO THE ADDRESS SHOWN IN ▶ ITEM 5

11. SHIP TO/MARK FOR CODE

12. PAYMENT WILL BE MADE BY CODE

FINANCE OFFICER (04)
VETERANS ADMINISTRATION
810 VERMONT AVE. NW WASHINGTON, DC 20420

13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION ☐ 10 U.S.C. 2304(c)( ) ☐ 41 U.S.C. 253(c)( )

14. ACCOUNTING AND APPROPRIATION DATA

15A. ITEM NO.	15B. SUPPLIES/SERVICES	15C. QUANTITY	15D. UNIT	15E. UNIT PRICE	15F. AMOUNT
	SERVICES OF FINANCIAL ADVISOR AS DESCRIBED IN THE SOLICITATION OFFERORS PROPOSAL, AND ALL AMENDMENTS AND MODIFICATIONS THERETO.	1	SVC	$550,000.	$550,000.00

15G. TOTAL AMOUNT OF CONTRACT ▶ $

16. TABLE OF CONTENTS

(✓)	SEC.	DESCRIPTION	PAGE(S)	(✓)	SEC.	DESCRIPTION	PAGE(S)
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X	C	DESCRIPTION/SPECS./WORK STATEMENT	6	X	J	LIST OF ATTACHMENTS	1
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CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE

17. ☒ CONTRACTOR'S NEGOTIATED AGREEMENT (Contractor is required to sign this document and return ______ copies to issuing office.) Contractor agrees to furnish and deliver all items or perform all the services set forth or otherwise identified above and on any continuation sheets for the consideration stated herein. The rights and obligations of the parties to this contract shall be subject to and governed by the following documents: (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein. (Attachments are listed herein.)

18. ☐ AWARD (Contractor is not required to sign this document.) Your offer on Solicitation Number ______ including the additions or changes made by you which additions or changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets. This award consummates the contract which consists of the following documents: (a) the Government's solicitation and your offer, and (b) this award/contract. No further contractual document is necessary.

19A. NAME AND TITLE OF SIGNER (Type or print)

MARVIN MARKUS
VICE PRESIDENT

19B. NAME OF CONTRACTOR

BY Marvin Markus
(Signature of person authorized to sign)

19C. DATE SIGNED 1/12/88

20A. NAME OF CONTRACTING OFFICER

JOSEPH C. KEPPLE

20B. UNITED STATES OF AMERICA

BY
(Signature of Contracting Officer)

20C. DATE SIGNED 1/12/88

NSN 7540-01-152-8069
PREVIOUS EDITION UNUSABLE

26-106

STANDARD FORM 26 (REV. 4-85)
Prescribed by GSA
FAR (48 CFR) 53.214(a)

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Kidder, Peabody & Co.
Incorporated
Founded 1865

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CHICAGO • SAN FRANCISCO • LOS ANGELES
ATLANTA • DALLAS • KANSAS CITY MO.

10 HANOVER SQUARE
NEW YORK, N. Y. 10005

Marvin Markus
VICE PRESIDENT

January 4, 1988

Mr. Joseph C. Kepple
Contracting Officer
Office of Procurement and Supply
Veterans Administration
810 Vermont Avenue, N.W.
Washington, D.C. 20420

RE: RFP 101-3-88

Dear Mr. Kepple:

This letter will respond to the Veterans Administration's (VA) request for a best and final offer for the above referenced solicitation. Kidder, Peabody has carefully reviewed the scope of work called for by VA's Request for Proposal. We believe that the cost proposal we submitted on December 16, 1987 is the best proposal we can make given the extensive series of tasks and deliverables specified for VA's financial advisor. Another copy of that proposal is attached for your review. In addition, enclosed as requested are two complete copies of Kidder, Peabody's technical proposal.

We are very hopeful that Kidder, Peabody will have the opportunity to work with VA on the vendee loan sale. We look forward to hearing from you shortly.

Sincerely,

Marvin Markus

MM:las

Enclosures

SECTION B

SUPPLIES OR SERVICES AND PRICES/COSTS

B.1 Total price for performing all services described in Tasks One through Six. $__________

B.2 Fixed hourly rate(s) for providing additional services during the initial contract period $__________

B.3 Fixed hourly rate(s) for providing additional services during the first option period. $__________

NOTE: A fully executed Detailed Cost Proposal must be submitted seperate from the technical proposa; with supporting documents to identify the following cost catagories for each contract period;

A. Direct Labor
B. Labor Overhead
C. Consultants/Subcontractors
D. Other Direct Costs
E. General and Administrative Expense
F. Profit/Fee

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10 HANOVER SQUARE
NEW YORK, N. Y. 10005

Marvin Markus
VICE PRESIDENT

December 16, 1987

Mr. Joseph C. Kepple
Contracting Officer
Office of Procurement and Supply
Veterans Administration
810 Vermont Avenue, N.W.
Washington, D.C. 20420

RE: RFP 101-3-88

Dear Mr. Kepple:

Kidder, Peabody has carefully reviewed the Veterans Administration's (VA) third amendment to the above referenced solicitation. We believe that our original technical proposal addressed all of the responsibilities described in VA's revised set of tasks and deliverables and have therefore not revised that submission.

We have, however, revised our cost proposal in accordance with VA's amended specifications. Our new proposal is set forth on the following page. Please let us know if there is any additional information you require.

Sincerely,

Marvin Markus

Marvin Markus

MM:las

Attachment

Kidder, Peabody & Co.
Incorporated

COST PROPOSAL FOR
RFP 101-3-88

B.1 Fixed price for performing all services described in Tasks One through Six. (Initial Sale)	$550,000
B.2 Fixed price for performing each additional sale as described in Task Six during the initial contract period.	$150,000
B.3 Fixed price for performing each additional sale as described in Task Six during the option contract period.	$150,000

SECTION C

DESCRIPTION/SPECIFICATION/WORK STATEMENT

C.1 Project Name.

Development and Assessment of Marketing Strategies for Non-Recourse Loan Sales.

C.2. Purpose for the Project.

To assist the Veterans Administration in structuring and completing successful sales of loan assets on a non-recourse basis.

C.3. Background.

The Veterans Administration directs a nationwide home loan program for veterans. As a result of GI loan defaults, VA often acquires and resells single family (1 to 4 unit) residences which were the security for the terminated loans. The sales of these properties to veterans or non-veterans may be for cash or with VA financing in the form of fixed rate, level payment vendee loans. Such loans are underwritten using the same guidelines established for VA's GI Home Loan Program. Most vendee loans entail small downpayments, but no-downpayment loans are also made. Vendee loans may be secured by mortgages or deeds of trust, or in some states with long foreclosure procedures, VA may retain title to the properties and use an installment contract as the instrument of sale.

VA's present portfolio of vendee loans consists of approximately 35,000 loans with a total value of over one billion dollars. For a number of years VA has used a competitive bidding process to sell on a servicing-released basis, the bulk of its current vendee loan production with a repurchase agreement in the event of serious loan default. Most of these loans, often called 4600 loans because of the VA Regulation involved (38 CFR 36.4600), have been included in pools of mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA).

As part of a multi-agency program for non-recourse loan sales, VA plans to sell without recourse and on a servicing-released basis approximately $615 million of loans originated in Fiscal Year 1988, as well as $300 million of the existing vendee portfolio. It is anticipated that several non-recourse sales will be held during FY 88 and that the first such sale will be in the second quarter (January - March 1988).

C.4 Scope and Methodology.

The contractor shall provide advice and assistance in the marketing and sale of vendee loan assets without recourse. To accomplish the objectives of this project, the contractor shall, at a minimum:

(a) Meet with the VA Contracting Officer's Technical Representative (COTR) and other Loan Guaranty representatives to achieve familiarity with the kind of loans which may be offered for sale, VA underwriting standards, and the title and loan documentation which is available.

(b) Analyze VA's loan portfolio and develop criteria for selection and sale of $300 million of existing vendee loans and new production of unseasoned vendee loans with high loan-to-value ratios.

(c) Develop and evaluate proposals for packaging selected loans into marketable units that can be readily sold in the private market.

(d) Evaluate proposals submitted to VA for underwriting or purchase of VA vendee loans without recourse.

(e) Develop several marketing strategies for carrying out sales which would provide a reasonable return to VA.

(f) Prepare written assessments of each marketing option and recommend which one should be pursued.

(g) Assist VA in working with the selected purchaser(s) or underwriter(s) in completing sales of vendee loans through a marketing strategy determined by the Agency.

Proposals and recommendations must be fully responsive to the objectives detailed in this Statement of Work. Assessments must be fully substantiated by the Financial Advisor with quantified cost and pricing data on previous sales of similar loan assets. The COTR will provide the Financial Advisor with guidance when required. VA Loan Guaranty officials and analysts will be available for answering any technical questions with regard to VA vendee loans.

The specific methodology for carrying out the objectives of the project shall be proposed by the Financial Advisor. The VA has specified deliverables for the assessment which will be produced in tasks as described in paragraph C.5.

C.5. Tasks and Associated Deliverables.

To support the purposes of the marketing assessment the contractor shall, at a minimum, complete the following tasks:

C.5.1 Task One: Conduct initial meeting with VA representatives. The Financial Advisor's project team will meet with the COTR and Loan Guaranty representatives to discuss the contract, receive an initial orientation to the VA project team, and identify sources of statistical data and background information.

Deliverable One: A briefing for the VA project team which presents the Financial Advisor's workplan. This briefing will be consistent with the Financial Advisor's technical proposal.

C.5.2 Task Two: Using its own ADP resources, the Financial Advisor will analyze data on VA portfolio loans and develop criteria for selection and sale of $300 million of existing vendee loans and $615 million projected FY 88 production based on their size, security, maturity, terms, tax implications and other factors which are considered necessary or advisable to enhance VA's sale efforts.

Under Task One, the VA project team will provide the Financial Advisor with all required information regarding available vendee loans, including a magnetic tape extract of active loan accounts in VA's PLS system.

Deliverable Two: A written report specifying the recommended criteria for selecting vendee loans to be offered for sale on a non-recourse basis and the reasons therefor.

C.5.3 Task Three: Develop and evaluate various packaging strategies for structuring selected loans into marketable units that can be readily sold in the private market.

Deliverable Three: A written assessment of strategies for selection and packaging of the loans into marketable units providing advantages and disadvantages, cost comparisons, and recommendations concerning each option.

C.5.4 Task Four: Provide evaluation and advice on proposals submitted to VA for underwriting or purchase of VA vendee loans without recourse. The financial Advisor will be precluded from purchasing the loans offered for sale, or having any financial interest in the underwriter(s) or purchaser(s).

Deliverable Four: A written report recommending which underwriter(s) or purchaser(s) should be selected and the reasons therefor.

C.5.5 Task Five: Develop at least five marketing strategies for carrying out sales on a non-recourse basis. These strategies must be consistent with Office of Management and Budget and Department of Treasury requirements, and Federal and state laws. (See Attachment 1) Additional strategies which are not consistent with OMB guidelines may be submitted to VA for consideration. However, the Financial Advisor should not expend efforts to develop such proposals without prior approval from the VA COTR.

In developing the various marketing options, consideration should be given to: (a) selling all the loans to a single financial institution, or selling a number of loan packages to one or more financial institutions or intermediaries; (b) using the projected income from the loans as security for public debt offerings, and (c) selling the loans in public offerings or through negotiated private sales. (it may be decided that some loans should be sold competitively, while others are sold through negotiated sales.)

Deliverable Five A: A written assessment of each marketing option with a recommendation as to which one the Agency should pursue. This assessment shall include quantified data on the costs that would be incurred in connection with the marketing and sale of the loans and the net proceeds which VA could expect to receive.

Deliverable Five B: An oral presentation for the VA project team and invites on Task Five.

C.5.6 Task Six: Assist VA in working with one or more purchasers or underwriters in completing sales of vendee loans through a marketing strategy to be determined by the Agency. For example, the Financial Advisor will be expected to (a) take the lead role in coordinating the activities of other sale participants, (i,e., senior purchaser or underwriter and legal counsel) and structuring of the sale transactions, (b) itemize and evaluate all fees and charges and compare such costs to those customary in the industry, (c) help prepare a pre-marketing presentation to be given by selected underwriters to major institutional investors, (d) participate in all VA negotiations related to the sale including pricing of the loans, and provide VA with comparable current market data and (e) identify and evaluate various servicing options for the loans offered for sale. Assist in oral presentations to the VA and external parties following completion of all tasks.

Deliverable Six: 100 manhours of consulting services in managing a non-recourse sale of vendee loans through completion.

C.6 Guidance Consideration for Evaluations and Recommendations.

The contractor will consider the effect of the data and information collected and presented in this effort in terms of the following factors:

(a) Consistency with basic mission responsibility to sell VA vendee loans on a non-recourse basis.

(b) Utility as a basis for decision-making by VA management officials.

(c) Cost-effectiveness in fulfilling VA's budgetary obligations.

(d) Responsiveness to the Agency's need to maximize sale proceeds.

(e) Practicality and/or relative ease of implementation of findings.

(f) Consistency with commonly used, sound principles and practices of financial management.

(g) Consistency with OMB loan asset sale guidelines.

C.7 Confidentiality and Non-Disclosure

It is agreed by the contractor that:

(a) The preliminary and final deliverables and all associated working papers and other material deemed relevant by VA which have been generated by the contractor in the performance of this task order are the property of the U.S. Government.

(b) The Administrator of Veterans Affairs or his authorized designee will be the sole authorized official to release verbally or in writing any data, the draft deliverables, the final deliverables, or any other written or printed materials pertaining to this tasking. No information will be released by the Contractor. Any requests for information relating to this tasking presented to the Contractor will be submitted to the Veterans Administration for response.

C.8. Loan Documentation and Accounting.

Standard documentation conforming to specific state law requirements is available for all VA vendee loans. Paper documentation (i.e., original loan instruments, title evidence, and origination and servicing records) is maintained in VA Regional Offices. Accounting information including individual loan terms, balances and borrower payment histories is contained in an automated system (PLS) maintained by VA's Data Processing Center in Austin, Texas. The financial advisor will be provided with a magnetic tape extract of active loan accounts in VA's PLS system following selection, along with appropriate instructions regarding the tape layout and a glossary of field definitions.

C.9 Term of Contract.

The contract will be effective for a period of one year from date of award. However, the work required under Tasks One through Five must be completed within 42 workdays from the date of award and the contractor shall remain available for further consultations as needed for up to 84 workdays under Task Six. A workday is defined as an eight hour day Monday through Friday which is not a legal holiday observed by the Federal Government. The Government retains the option to extend the term of the contract for one additional twelve month period.

Upon completion of the Tasks described in paragraph C.5, VA will have the option to request additional financial advice and services during the initial and optional contract periods in connection with sales of loan assets. Such requests will be in the form of task orders specifying the work to be performed. It is anticipated that non-recourse sales will be held on a quarterly basis beginning with the second quarter of Fiscal Year 1988 (January - March 1988). The additional advice and services requested by VA would be consistent with those required under Task Six and Deliverable Six of this Statement of Work. The actual number of hours of work to be performed will be negotiated with the Financial Advisor. The Financial Advisor shall agree to provide such advice and services at hourly rates presented in the technical proposal in response to this work statement. If VA intends to exercise this option, the Financial Advisor shall be notified in writing by the Contracting Officer.

SECTION E

INSPECTION AND ACCEPTANCE

E.1 52.246-4 Inspection of Services - Fixed-Price. (APR 1984)

(a) Definitions. ``Services,'' as used in this clause, includes services performed, workmanship, and material furnished or utilized in the performance of services.

(b) The Contractor shall provide and maintain an inspection system acceptable to the Government covering the services under this contract. Complete records of all inspection work performed by the Contractor shall be maintained and made available to the Government during contract performance and for as long afterwards as the contract requires.

(c) The Government has the right to inspect and test all services called for by the contract, to the extent practicable at all times and places during the term of the contract. The Government shall perform inspections and tests in a manner that will not unduly delay the work.

(d) If any of the services do not conform with contract requirements, the Government may require the Contractor to perform the services again in conformity with contract requirements, at no increase in contract amount. When the defects in services cannot be corrected by reperformance, the Government may (1) require the Contractor to take necessary action to ensure that future performance conforms to contract requirements and (2) reduce the contract price to reflect the reduced value of the services performed.

(e) If the Contractor fails to promptly perform the services again or to take the necessary action to ensure future performance in conformity with contract requirements, the Government may (1) by contract or otherwise, perform the services and charge to the Contractor any cost incurred by the Government that is directly related to the performance of such service or (2) terminate the contract for default.

(End of clause)

SECTION F

DELIVERIES OR PERFORMANCE

F.1 Schedule for Deliverables:

The following items shall be delivered in accordance with the schedule indicated. Because of the sensitive nature of this project, no camera-ready masters of any deliverables are desired. If the offeror believes that different dates should be established, those proposed dates will be indicated in the technical proposal. The technical proposal shall contain a detailed plan for accomplishment of the requirements of this contract including the methodology to be used for each aspect of the assessment and the proposed staffing to be used. The offerors cannot propose a change which would affect the final delivery date.

ITEM	QUANTITY	DELIVERY
a. Conduct initial meeting with VA representatives (Task 1)	N/A	within 2 workdays after award of task order
b. Present Briefing (Deliverable One)		will be presented as part of initial meeting
c. Develop criteria for selection of vendee loans to be offered for sale on a non-recourse basis and provide a written report to VA (Task Two and Deliverable Two)	8 copies to to TOPM, plus 1 courtesy copy each to COTR and Contracting Officer.	within 15 workdays after award.
d. Develop and evaluate packaging strategies for structuring selected loans into marketable units and provide a written assessment of each option proposed (Task Three and Deliverable Three)	Same as for Deliverable Two	Within 21 Work-Days after Award

e. Evaluate proposals submitted to VA for underwriting or purchase of vendee loans and prepare a written report providing selection recommendations (Task Four and Deliverable Four)	Same as for Deliverable Two	On call after Deliverable Two
f. Develop and evaluate several marketing strategies for carrying out sales on a non-recourse basis (Task Five and Deliverable Five A)	8 copies to TOPM, plus 1 courtesy copy each to COTR and Contracting Officer	within 42 workdays after award.
g. Present briefing on results of Task Five (Deliverable Five B)	Master Briefing materials for contractor use plus twenty copies of handout material.	On call but not to exceed 3 workdays after Deliverable Five A.
h. Assist VA in managing the proposed sales(s) through completion (Task Six and Deliverable Six)	N/A	Upon request. after Deliverable Five A.

The time specified for delivery of the briefing identified as Deliverable Five B is intended to mean that the Financial Advisor will have no more than the specified number of workdays to be prepared to perform this briefing. However, the COTR shall have the option to postpone this briefing for a period not to exceed 21 workdays from the specified delivery date.

SECTION I

CONTRACT CLAUSES

I-1 52.252-2 Clauses Incorporated by Reference. (APR 1984)

This contract incorporates the following clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available.

I. FEDERAL ACQUISITION REGULATION (48 CFR CHAPTER 1) CLAUSES

52.202-1	Definitions. (APR 1984)
52.203-5	Covenant Against Contingent Fees. (APR 1984)
52.203-6	Restrictions on Subcontractor Sales to the Government. (JUL 1985)
52.203-7	Anti-Kickback Procedures (FEB 1987)
52.233-3	Protest after award. (JUN 1985)
52.203-1	Officials Not to Benefit. (APR 1984)
52.203-3	Gratuities. (APR 1984)
52.215-1	Examination of Records by Comptroller General. (APR 1984)
52.215-2	Audit - Negotiation. (APR 1984)
52.215.26	Integrity of Unit Prices. (APR 1987)
52.215-30	Facilities Capital Cost of Money. (APR 1984)
52.215-31	Waiver of Facilities Capital Cost of Money. (APR 1984)
52.215-33	Order of Precedence. (JAN 1986)
52.217-8	Option to Extend Services. (APR 1984)
52.219-8	Utilization of Small Business Concerns and Small Disadvantaged Business Concerns. (JUN 1985)
52.219-13	Utilization of Women-Owned Small Businesses. (AUG 1986)
52.220-1	Preference for Labor Surplus Area Concerns. (APR 1984)

52.220-3 Utilization of Labor Surplus Area Concerns. (APR 1984)

52.222-1 Notice to the Government of Labor Disputes. (APR 1984)

52.222-3 Convict Labor. (APR 1984)

52.222-26 Equal Opportunity. (APR 1984)

52.222-35 Affirmative Action for Special Disabled and Vietnam Era Veterans. (APR 1984)

52.222-36 Affirmative Action for Handicapped Workers. (APR 1984)

52.223-2 Clean Air and Water. (APR 1984)

52.224-1 Privacy Act Notification. (APR 1984)

52.224-2 Privacy Act. (APR 1984)

52.229-3 Federal, State, and Local Taxes. (APR 1984)

52.229-5 Taxes - Contracts Performed in U.S. Possessions or uerto Rico (APR 1984)

52.232-1 Payments. (APR 1984)

52.232-8 Discounts for Prompt Payment. (JUL 1985)

52.232-11 Extras. (APR 1984)

52.232-17 Interest. (APR 1984)

52.232-23 Assignment of Claims. (JAN 1986)

52.233-1 Disputes. (APR 1984)

52.243-1 Changes - Fixed-Price. (APR 1984)--Alternate III (AUG 1987)

52.246-25 Limitation of Liability - Services. (APR 1984)

52.249-4 Termination for Convenience of the Government (Services) (Short Form). (APR 1984)

52.249-8 Default (Fixed-Price Supply and Service). (APR 1984)

(End of clause)

I.2 852.270-4 Commercial Advertising (NOV 1984).

COMMERCIAL ADVERTISING (NOV 1984)

The bidder or offeror agrees that if a contract is awarded to him/her, as a result of this solicitation, he/she will not advertise the award of the contract in his/her commercial advertising in such a manner as to state or imply that the Veterans Administration endorses a product, project or commercial line of endeavor.

(End of Clause)

I.3 852.237-70 Contractor Responsibilities (APR 1984).

CONTRACTOR RESPONSIBILITIES (APR 1984)

The contractor shall obtain all necessary licenses and/or permits required to perform this work. He/she shall take all reasonable precautions necessary to protect persons and property from injury or damage during the performance of this contract. He/she shall be responsible for any injury to himself/herself, his/her employees, as well as for any damage to personal or public property that occurs during the performance of this contract that is caused by his/her employee's fault or negligence, and shall maintain personal liability and property damage insurance having coverage for a limit as required by the laws of the District of Columbia. Further, it is agreed that any negligence of the Government, its officers, agents, servants and employees, shall not be the responsibility of the contractor hereunder with the regard to any claims, loss, damage, injury and liability resulting therefrom.

(End of Clause)

I.4 852.270-1 Representatives of Contracting Officers (APR 1984).

REPRESENTATIVES OF CONTRACTING OFFICERS (APR 1984)

The contracting officer reserves the right to designate representatives to act for him/her in furnishing technical guidance and advice or generally supervise the work to be performed under this contract. Such designation will be in writing and will define the scope and limitations of the designee's authority. A copy of the designation shall be furnished the contractor.

(End of Provision)

SECTION J

LIST OF ATTACHMENTS

J.1 The following attachments are part of this solicitation and any contract which may result.

Attachment	Title
1.	Guidelines For Loan Asset Sales
2	Samples of Loan Documentation
3	Portfolio Statistics
4	Default Statistics
5	Computer Tape Record Layout
6	Underwriting Guidelines

Proposal to Serve as

Financial Advisor

for the

Veterans Administration Vendee Loan Program

November 20, 1987

Kidder, Peabody & Co.
Incorporated

Kidder, Peabody & Co.
Incorporated
Founded 1865

NEW YORK • BOSTON • PHILADELPHIA
CHICAGO • SAN FRANCISCO • LOS ANGELES
ATLANTA • DALLAS • KANSAS CITY MO.

10 HANOVER SQUARE
NEW YORK, N. Y. 10005

Marvin Markus
VICE PRESIDENT

November 19, 1987

Procurement Service (93B)
Veterans Administration Central Office
810 Vermont Avenue, N.W.
Room 772
Washington, D.C. 20420

RE: Solicitation No. 101-3-88

Dear Sir:

We are pleased to submit herewith our proposal and credentials to serve as Financial Advisor to the Veterans Administration (VA) in connection with the above referenced solicitation.

As demonstrated by our long record of successful and innovative transactions, Kidder, Peabody & Co. is in an exceptionally strong position to provide the structuring and marketing expertise, the technical and data processing capabilities, and the personnel resources required to successfully carry out the scope of services required by VA. We are confident that Kidder, Peabody could, within the stipulated timeframe, 1) develop a full range of strategies for packaging and selling VA's vendee loans; and 2) work with VA to select underwriters and complete a series of sales.

The following points summarize the firm's strong credentials:

- Knowledge of Government Financing Programs - In early 1987, Kidder, Peabody was selected by the Farmers Home Administration as Financial Advisor for its Rural Housing loan sale and Co-manager for its Community Program loan sale. The firm played an integral role in the successful completion of both transactions, which raised a total of approximately $2.8 billion for the Federal Government. Through its leading role, Kidder, Peabody gained valuable insights into the operation of government lending and sales programs which would greatly expedite VA's sales efforts.

- **Structuring and Marketing Expertise** - The particular areas VA's project will involve — asset finance and fixed income — are both fields in which Kidder, Peabody excels. Our track record is particularly strong in mortgage backed securities, reflecting years of successful activity in both taxable and tax-exempt housing finance.

- **Familiarity with Vendee Loan Program** - Kidder, Peabody has been studying and analyzing VA's vendee loan program and portfolio since Jnauary 1987. We are aware of VA's need to raise funds to replenish the VA Loan Guarantee Fund on a regular basis and will work with VA to develop a sales program which meets this requirement. Our own expertise will be supplemented by the counsel of Brownstein Zeidman and Schomer, whose senior partner, Philip Brownstein, served for a period of 17 years in the Veterans Administration.

- **Experienced Personnel** - Kidder, Peabody is prepared to make an unqualified commitment of time and resources to VA. We have identified a team of nine professionals from our Asset Finance and Fixed Income Departments who would work on all aspects of VA's assignment. Team members from Asset Finance can draw on a wide range of experience in the securitization of mortgages and receivables, mortgage banking, government agency administration, and cash flow analysis. Professionals in Fixed Income who specialize in the sale of sizeable asset backed transactions would advise them on the pricing and marketing of VA's loans. Our in-house capabilities would be supplemented by the specialized knowledge of our counsel, Brownstein Zeidman and Schomer.

- **Technical and ADP Capabilities** - Kidder, Peabody has made a substantial and ongoing commitment to provide in-depth computer services to our clients. Our extensive personnel and computer systems enable us to handle in-house virtually every financing technique available in the marketplace and to identify the lowest cost structures based on market yield curves and spreads. Such expertise is essential to the achievement of VA's objectives.

I hope that Kidder, Peabody's qualifications and proposal will be of interest to VA. Thank you for your consideration.

Sincerely,

Marvin Markus

Marvin Markus

MM:las

Attachment

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I. Offeror's Understanding of the Project

The Veterans Administration's (VA) vendee loan sale project is a complex undertaking which can best be facilitated by a Financial Advisor with a wide range of financing expertise and extensive experience in Federal loan sales. Kidder, Peabody & Co., an investment banking firm with a 120-year history of successful operations, has both such qualifications. As Financial Advisor to the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture, Kidder, Peabody enabled FmHA to net $1.75 billion within a ten month timeframe from the FY '87 sale of its Section 502 Rural Housing loans. The firm also served as co-manager for FmHA's Community Program loan sale, which raised over $1 billion in September 1987. The experience Kidder, Peabody gained through these sales with the data collection activities, securitization techniques, and legal issues which arise in connection with federal asset disposition programs will offer an important advantage to VA, particularly given the short time period in which its first sale must be accomplished.

The fact that Kidder, Peabody has been studying VA's vendee loan program since January 1987, when VA first indicated its interest in selling loans on a nonrecourse basis, will also help us fulfill VA's requirements in a timely and effective manner. During the following 11 months, Kidder, Peabody analyzed VA's loan portfolio extensively, familiarized itself with program history and procedures, and met with program officials regarding the proposed April 14, 1987 competitive sale. These efforts will give us an important "head start" on both identifying and solving the problems raised by VA's loan sale. Kidder, Peabody's position as a major participant in the growing mortgage backed securities market further enhances the expertise the firm can bring to VA's loan sale program.

To produce the deliverables required by VA and to enable its vendee loans to be sold within the stipulated timeframe, Kidder, Peabody has developed a comprehensive work plan for the sale based on five broad categories of investigation: 1) program and asset analysis; 2) financing structure; 3) tax and legal structures; 4) due diligence requirements; and 5) servicing issues and options. Work in these areas would proceed on a separate but coordinated basis so as to maximize the progress that could be made toward achieving VA's goal of completing a sale within the second quarter of fiscal year 1988. This section of our proposal will provide an overview of Kidder, Peabody's proposed technical approach for executing the requirements specified in VA's Statement of Work. It will examine each of the five work categories listed above, describing the important tasks which need to be accomplished and the objectives they will help achieve.

Finally, a key aspect of Kidder, Peabody's approach to the vendee loan project would be to work with VA to identify possible modifications to its program to facilitate the securitization of loans originated in the future. We are keenly aware that, to replenish its VA Loan Guarantee Fund, VA needs to raise funds on a regular basis. One of our basic goals will therefore be to seek ways to enhance sale proceeds by improving the process by which vendee loans are originated, data accumulated, and documents maintained. At the same time, we are familiar with Public Law 100-136, enacted October 16, 1987, which amends Section 1816(d)(3) of title 38, United States Code. It provides that the sale of VA's vendee loans shall be made (a) with recourse; or (b) without recourse, but only if the amount received is equal to an amount which is not less than the unpaid balance of such loan. We understand that this language may be amended and that its final form could have a significant impact on VA's vendee loan sale program. Kidder, Peabody and its counsel are monitoring House and Senate discussions and will work to develop effective sales alternatives within the context of statutory constraints.

A. Program and Asset Analysis

To develop comprehensive packaging and marketing strategies for VA, it is essential that the Agency's Financial Advisor learn as much as possible about the nature of the assets that VA owns. Without a clear profile of the vendee loan portfolio, its credit quality, cash flow and other characteristics, it will not be possible to develop a sale program which maximizes the return to the Federal Government. As a result, analyzing the vendee program and the nature of VA's assets will be one of the most important aspects of the Financial Advisor's responsibilities. As demonstrated by the following information, Kidder, Peabody has already begun this important process. Our preliminary analysis of an August 1987 tape made available by VA as well as selected program and portfolio information prepared by VA and the General Accounting Office reveals some useful insights. These insights, which are summarized below, illustrate how Kidder, Peabody would analyze VA's loan portfolio in order to determine the optimal way to structure and market its vendee loans.

Portfolio Highlights

1. Analysis of August 1987 Tape

- In August 1987, VA's vendee loan portfolio consisted of 27,094 loans with an outstanding balance of $768.2 million. The loans had an average interest rate of 10.17% and an average remaining term to maturity of 26 years.
- Excluding loans with principal balances of less than $10,000, which are costly to securitize, the average loan balance was $35,500. Less than 4% of the loans had current balances in excess of $100,000.
- The interest rates ranged from a high of 16.5% to a low of 3%. Over 35% of the loans had interest rates between 9% and 9.99%, while fewer than 7% had interest rates lower than 8% or higher than 13.99%.
- The maturities of the loans ranged from 1987 to 2023. The majority of the loans matured between 2008 and 2017.

  Although the average loan had a remaining maturity of 26 years, over 36% of the loans were originated in 1987. Excluding 1987 originations, the average loan was originated in 1983.

- Over 73% of the loans were secured by first mortgages. The remaining loans were secured by installment contracts.

- The loans were reasonably well geographically dispersed. Only five states had in excess of 5% of the total portfolio — Texas (15.37%), California (12.41%), Illinois (8.67%), Ohio (6.07%) and Florida (5.49%). The remaining 52% of the portfolio was distributed among 45 states, Puerto Rico, Washington D.C., Guam, and the Virgin Islands.

  Counties which evidenced a high degree of concentration include Harris County, Texas (7.09%); Cook County, Illinois (4.76%); and Los Angeles County, California (4.24%).

- Close to 70% of the loans had an original loan/purchase price ratios of 90-99%. Another 24% had ratios of 100% or more, while only 8% had ratios of less than 90%.

- Over 41% of the loans were delinquent as defined by VA. An additional 6.5% of the loans were recently delinquent, while 3.8% of the loans were classified as not available for sale. However, 44% of the loans had never been delinquent, and only 15.6% of the loans had been delinquent more than two times.

- The probability of delinquency was directly related to loan interest rate. Loans with coupons of 11% and higher were twice as likely to be delinquent as others.

- More than 84% of the loans originated in 1987 were current. By comparison, over half of the loans originated prior to 1987 were delinquent.

- States with the highest percentages of delinquencies were Florida (54%), Illinois (57%), Indiana (54%), Louisiana (52%), Missouri (58%), New York (56%), and Ohio (54%). The largest concentrations of delinquencies were in Texas ($47 million), Illinois ($38 million), California ($29 million), Ohio ($25 million), and Florida ($23 million).

2. Other Historical Information

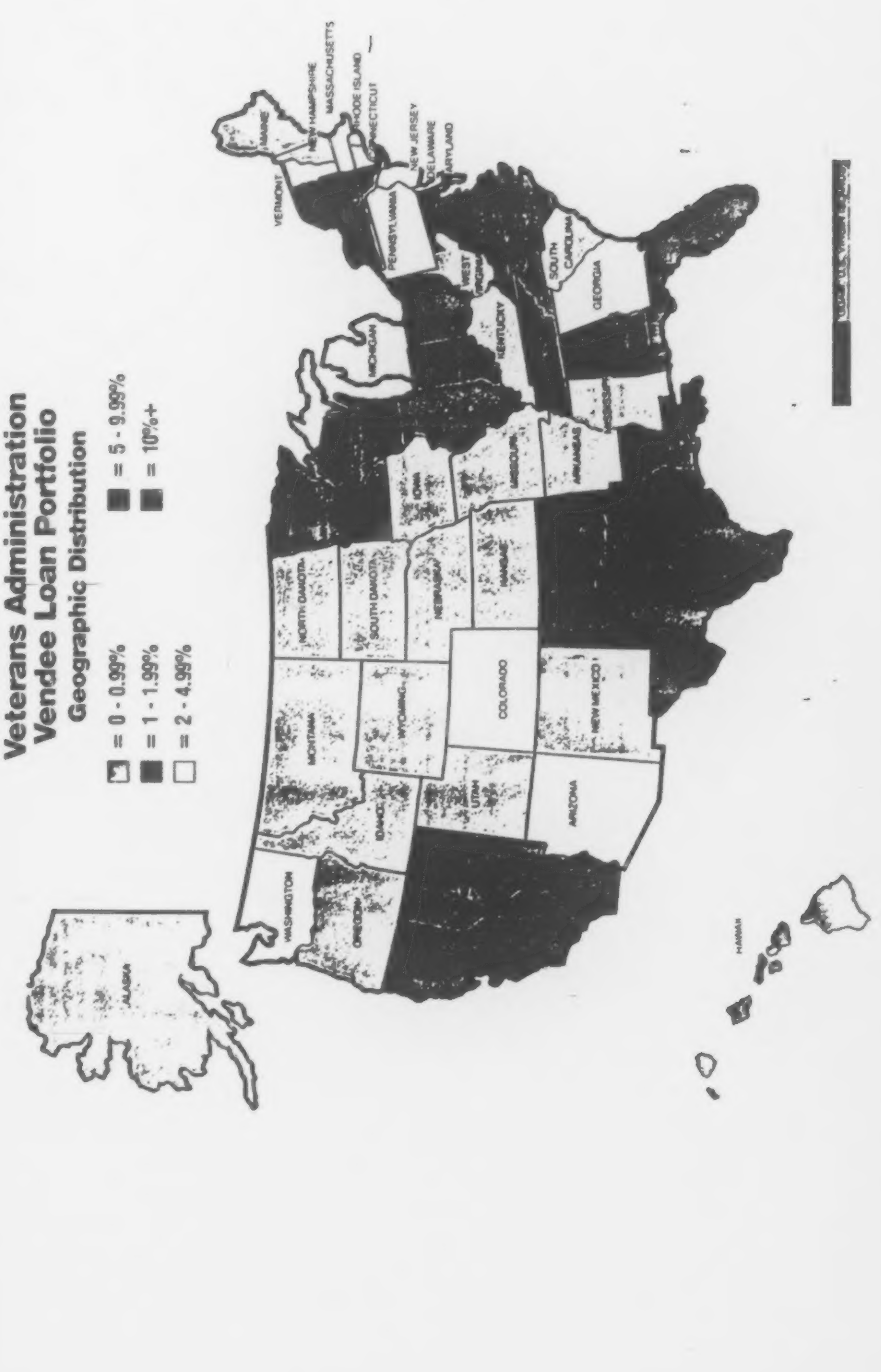
- VA's average loss on acquired properties rose from $10,784 in 1984 to $14,391 in 1986. In general, foreclosure actions have been increasing at a compounded rate of 20% annually since 1981, with a 1986 total of 34,642 actions.

- From the inception of the program in 1962 through 1985, total vendee repurchases averaged 13.4% of all vendee loans.

- Over 14% of vendee loans are ultimately repurchased by VA. Of the repurchased loans, over 49% are ultimately foreclosed.

- Since 1980, VA's average loss on the sale of vendee properties has grown at an annual compounded rate of 24%. A preliminary review of background material from VA suggests that a principal reason for this increase in losses is a decline in the selling price as a percent of the appraisal value at foreclosure. In 1980 this ratio was 106%, while by 1987 the ratio had declined to 88%.

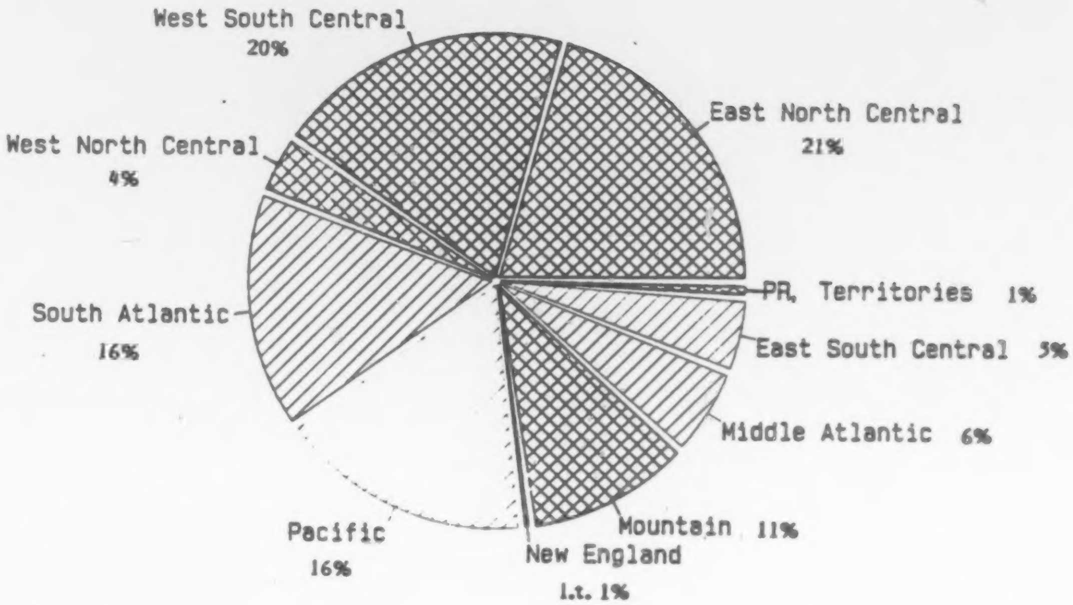
The following pages include a series of charts and tables that illustrate some of the results of our analysis. Also attached as Appendix A are additional tables analyzing VA's portfolio.



Veterans Administration
Vendee Loan Portfolio
Geographic Distribution

▨ = 0 - 0.99%
■ = 1 - 1.99%
□ = 2 - 4.99%
■ = 5 - 9.99%
■ = 10%+
ALASKA
WASHINGTON
OREGON
IDAHO
MONTANA
WYOMING
UTAH
ARIZONA
COLORADO
NEW MEXICO
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
KANSAS
IOWA
MISSOURI
ARKANSAS
MISSISSIPPI
MICHIGAN
KENTUCKY
WEST VIRGINIA
PENNSYLVANIA
SOUTH CAROLINA
GEORGIA
VERMONT
MAINE
NEW HAMPSHIRE
MASSACHUSETTS
RHODE ISLAND
CONNECTICUT
NEW JERSEY
DELAWARE
MARYLAND
HAWAII

Veterans Administration Loan Portfolio Distribution by Region



Veterans Administration Vendee Loan Portfolio
Distribution by State

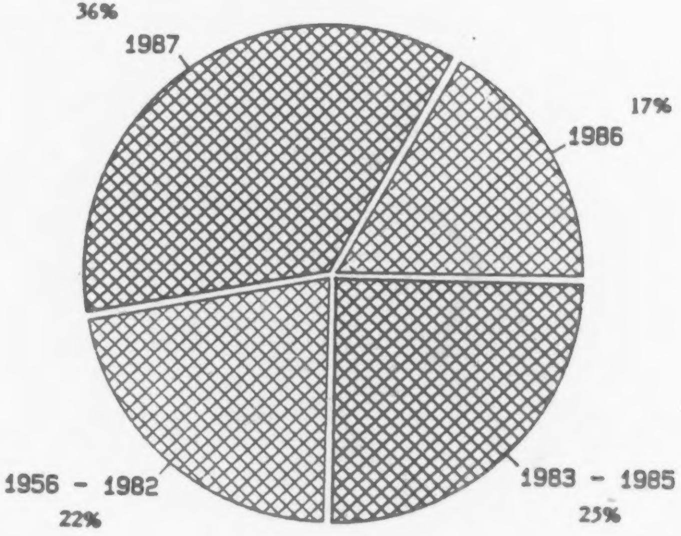
	Current Balance	Number of Loans	Interest Rate	Original LTV	WAM (Months)	% of Total
East North Central						
Illinois	$66,080,815	2,128	10.18%	92.5%	323	8.76%
Indiana	11,939,474	657	10.48	94.8	309	1.58
Michigan	25,351,225	1,814	10.08	96.3	287	3.36
Ohio	44,157,604	2,228	10.67	93.4	281	5.86
Wisconsin	9,350,913	365	10.20	95.4	306	1.24
Total	$156,880,030	7,192	10.32%	9.37%	304	20.80%
East South Central						
Alabama	$11,689,212	596	10.16%	96.0%	280	1.55%
Kentucky	4,000,106	237	10.04	97.6	288	0.53
Mississippi	7,340,302	343	9.98	97.3	281	0.97
Tennessee	10,028,027	493	10.51	96.8	288	1.33
Total	$33,057,647	1,669	10.21%	96.72%	284	4.38%
Mountain						
Arizona	$20,759,848	457	10.10%	97.6%	340	2.75%
Colorado	31,362,974	701	10.36	96.9	336	4.16
Idaho	3,906,487	116	10.61	94.1	313	0.52
Montana	1,661,296	55	10.22	93.3	299	0.22
Nevada	14,071,032	295	9.88	96.8	344	1.87
New Mexico	1,641,556	87	9.29	97.6	308	0.22
Utah	4,179,240	124	9.85	95.4	322	0.55
Wyoming	3,580,392	106	10.06	97.8	345	0.47
Total	$81,162,826	1,941	10.16%	96.8%	336	10.76%
Middle Atlantic						
New Jersey	$17,340,347	768	10.97%	91.0%	277	2.30%
New York	13,704,674	652	11.26	90.0	258	1.82
Pennsylvania	15,019,427	821	10.90	93.1	272	1.99
Total	$46,064,448	2,241	11.03%	91.4%	270	6.11%

Veterans Administration Vendee Loan Portfolio
Distribution by State

	Current Balance	Number of Loans	Interest Rate	Original LTV	WAM (Months)	% of Total
New England						
Connecticut	$298,379	17	9.74%	96.5%	245	0.04%
Maine	833,963	48	11.08	96.4	230	0.11
Massachusetts	394,323	39	9.70	87.6	190	0.05
New Hampshire	124,656	11	8.92	101.9	223	0.02
Rhode Island	18,670	1	9.00	93.9	172	0.00
Vermont	16,301	1	9.00	97.0	190	0.00
Total	$1,686,293	117	10.32%	94.7%	222	0.22%
West South Central						
Arkansas	$6,041,308	248	10.08%	97.1%	303	0.80%
Louisiana	11,798,623	700	9.05	98.5	286	1.56
Oklahoma	14,914,272	598	10.05	96.4	315	1.98
Texas	116,134,448	3,546	9.77	97.9	321	15.40
Total	$148,888,651	5,092	9.75%	97.8%	317	19.74%
South Atlantic						
Delaware	$650,186	33	11.91%	89.6%	271	0.09%
District of Columbia	3,527,186	72	10.87	98.0	331	0.47
Florida	41,446,733	1,138	10.33	96.5	313	5.50
Georgia	27,477,856	965	10.27	96.8	300	3.64
Maryland	12,341,548	263	10.47	96.3	323	1.64
North Carolina	14,218,669	519	9.94	97.5	295	1.89
South Carolina	6,249,546	225	10.22	95.9	309	0.83
Virginia	12,282,901	299	10.46	97.1	317	1.63
West Virginia	2,024,310	98	11.02	97.2	260	0.27
Total	$120,218,935	3,612	10.33%	96.7%	309	15.94%
Territories						
Guam	$289,922	6	11.51%	94.8%	309	0.04%
Puerto Rico	10,166,796	378	11.33	90.1	264	1.35
Virgin Islands	275,492	7	11.63	89.0	276	0.04
Total	$10,732,210	391	11.34%	90.2%	266	1.42%

Veterans Administration Vendee Loan Portfolio
Distribution by State

	Current Balance	Number of Loans	Interest Rate	Original LTV	WAM (Months)	% of Total
West North Central						
Iowa	$3,583,599	203	9.96%	93.7%	282	0.48%
Kansas	7,265,149	472	10.17	97.1	289	0.96
Minnesota	10,011,405	267	10.19	94.9	325	1.33
Missouri	5,135,510	500	9.58	93.1	236	0.68
Nebraska	2,375,587	108	10.10	96.5	289	0.32
North Dakota	803,530	35	9.41	95.7	329	0.11
South Dakota	837,109	33	10.31	93.5	320	0.11
Total	$30,011,889	1,618	10.03%	95.1%	293.	3.98%
Pacific						
Alaska	$1,675,099	21	9.65%	97.1%	351	0.22%
California	94,453,940	1,787	10.03	93.3	329	12.52
Hawaii	1,689,640	18	11.14	97.2	317	0.22
Oregon	2,822,346	64	9.93	99.6	347	0.37
Washington	24,805,664	587	10.16	97.8	334	3.29
Total	$125,446,690	2,477	10.07%	94.4%	330	16.63%
National Total	$754,149,618	47,608	10.19%	95.5%	311	100.00%



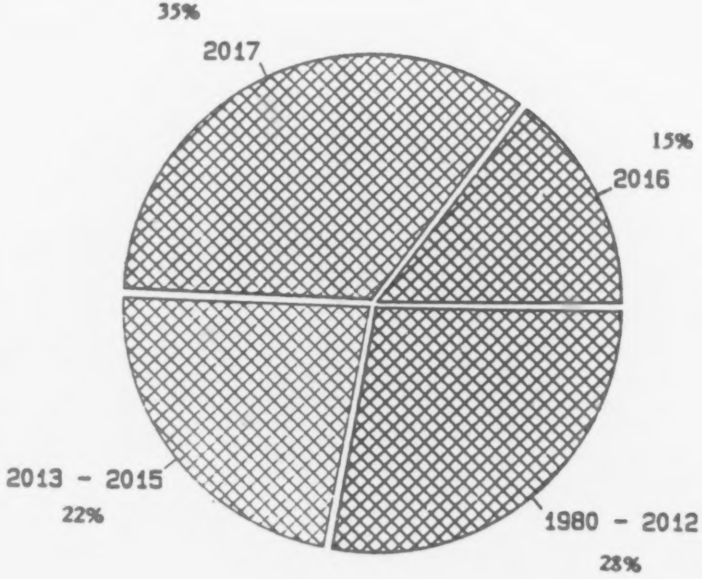
Veterans Administration Vendee Loan Portfolio

Distribution by Year of Origination

Veterans Administration Vendee Loan Portfolio
Key Statistics by Year of Origination

Year of Origin.	Outstanding Principal Balance	Number of Loans	Average Interest Rate	Average Original Balance	Balance/ Original Balance	Original Term (Mths)	Original LTV
1956	$4,439	1	5.00%	$11,175	39.7%	360	93.3%
1958	35,173	46	5.02	10,093	7.6	357	92.5
1959	88,150	68	5.16	10,319	12.6	362	91.6
1960	127,822	69	5.49	9,644	19.2	360	92.7
1961	308,426	124	5.60	10,122	24.6	359	94.7
1962	427,541	147	5.55	9,930	29.3	358	91.1
1963	944,820	302	5.48	9,855	31.7	356	92.7
1964	2,033,918	539	5.39	9,804	38.5	368	92.7
1965	5,021,428	971	5.36	11,187	46.2	384	97.1
1966	2,356,666	416	5.88	11,466	49.4	368	95.4
1967	1,520,475	243	6.06	11,591	54.0	362	96.2
1968	4,180,207	602	6.71	12,024	57.8	355	93.5
1969	3,734,737	453	7.47	12,213	67.5	357	91.0
1970	1,706,758	191	7.79	11,804	75.7	363	88.0
1971	4,082,263	414	7.47	12,954	76.1	358	91.6
1972	4,805,836	429	7.63	14,173	79.0	355	90.3
1973	7,225,567	600	7.77	14,737	81.7	359	92.7
1974	9,002,126	631	8.65	16,923	84.3	356	93.6
1975	6,668,339	460	8.75	16,434	88.2	354	92.4
1976	8,580,339	521	8.93	18,359	89.7	352	93.4
1977	5,206,682	305	8.50	19,462	87.7	344	93.5
1978	17,284,394	836	9.09	22,727	91.0	354	94.1
1979	18,066,042	796	9.58	24,349	93.2	352	94.1
1980	13,637,307	589	12.24	24,225	95.6	347	93.1
1981	15,626,468	662	14.33	24,468	96.5	343	93.8
1982	20,441,606	734	13.53	28,613	97.3	338	94.2
1983	43,320,673	1,248	11.54	35,432	98.0	344	94.4
1984	76,788,463	2,165	12.87	35,654	99.5	343	95.7
1985	73,809,210	2,032	11.76	36,714	98.9	339	95.7
1986	127,233,340	3,252	9.81	39,410	99.3	338	96.3
1987	279,880,402	6,506	9.16	43,112	99.8	353	96.3
	$754,149,618	26,352	10.19%	$30,162	96.6%	347	95.5%

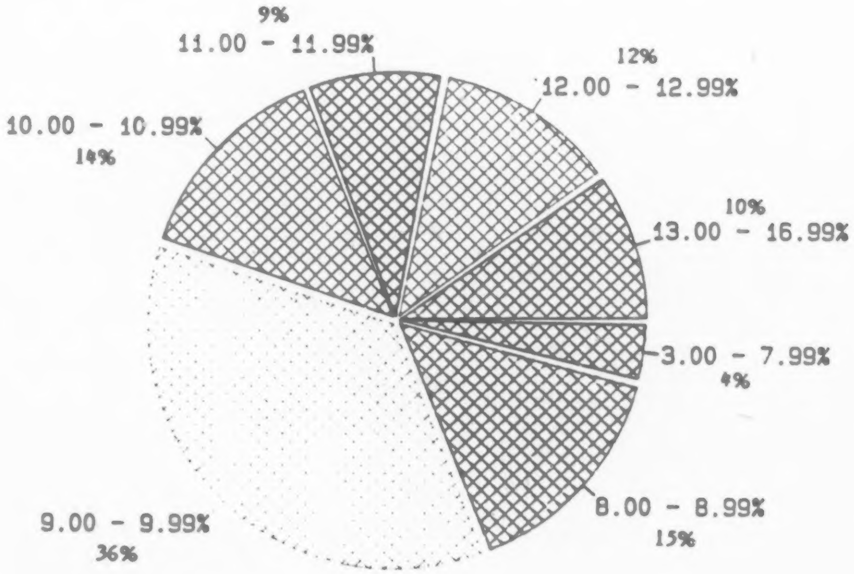
Veterans Administration Vendee Loan Portfolio
Distribution by Year of Maturity



Veterans Administration Vendee Loan Portfolio
Distribution by Year of Maturity

Year of Maturity	Principal Balance	Number of Loans	Interest Rate	% of Total	Cumulative % of Total
1980	$3,325	2	5.41%	0.00%	0.00%
1981	2,735	1	5.50	0.00	0.00
1982	802	1	5.50	0.00	0.00
1983	4,083	3	5.57	0.00	0.00
1984	1,496	1	5.50	0.00	0.00
1986	18,480	4	5.54	0.00	0.00
1987	816,661	72	10.24	0.11	0.11
1988	575,275	222	8.12	0.07	0.19
1989	403,597	264	7.32	0.05	0.24
1990	663,498	297	8.25	0.09	0.32
1991	1,144,642	309	9.33	0.15	0.47
1992	1,411,270	308	9.20	0.18	0.66
1993	2,137,796	467	7.69	0.28	0.94
1994	3,247,544	592	8.44	0.42	1.36
1995	4,433,602	726	7.84	0.58	1.94
1996	3,972,900	507	8.42	0.52	2.45
1997	4,491,343	476	9.30	0.58	3.04
1998	6,303,671	641	8.58	0.82	3.86
1999	8,579,391	700	10.24	1.12	4.98
2000	10,536,003	768	9.91	1.37	6.35
2001	15,551,510	943	9.25	2.03	8.37
2002	12,622,721	816	8.80	1.64	10.02
2003	8,146,756	615	8.21	1.06	11.08
2004	10,345,807	688	9.07	1.35	12.42
2005	7,783,645	499	9.13	1.01	13.44
2006	10,737,225	586	9.43	1.40	14.84
2007	4,451,699	199	8.62	0.58	15.42
2008	17,190,784	748	9.18	2.24	17.65
2009	18,234,261	710	9.72	2.37	20.03
2010	13,152,191	476	12.17	1.71	21.74
2011	14,620,591	512	13.98	1.90	23.64
2012	19,383,886	588	13.14	2.52	26.17
2013	38,833,752	978	11.54	5.06	31.23
2014	69,023,681	1,700	12.87	8.99	40.21
2015	65,177,557	1,588	11.78	8.49	48.70
2016	112,192,391	2,529	9.84	14.61	63.31
2017	270,187,526	5,973	9.16	35.18	98.49
2020	65,398	1	9.50	0.01	98.50
2021	44,526	1	9.00	0.01	98.51
2022	10,383,219	495	8.88	1.35	99.86
2023	1,092,530	[illegible]	8.88	[illegible]	[illegible]
Total	$767,969,769	27,057	10.17%	100.00%	

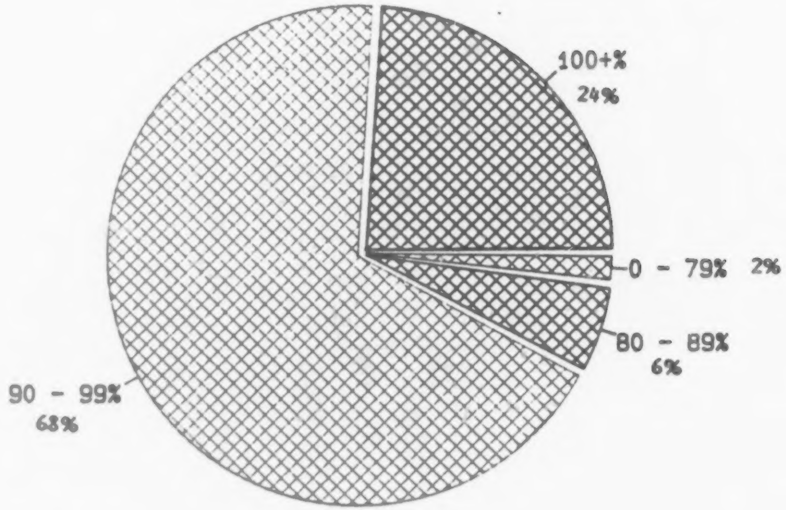
Veterans Administration Vendee Loan Portfolio
Distribution by Interest Rate



Veterans Administration Vendee Loan Portfolio
Key Statistics by Loan Interest Rate

Interest Rate	Current Balance	Number of Loans	WAM (Months)	Age (Months)	Original LTV	% of Total	Cumul. %
3.00%	$276,327	52	214	198	99.5%	0.04%	0.04%
3.50	42,454	1	360	0	95.0	0.01	0.04
4.00	95,069	17	201	172	98.6	0.01	0.05
4.50	304,346	45	191	171	99.9	0.04	0.10
4.75	5,934	4	20	340	85.1	0.00	0.10
5.00	136,526	85	121	237	92.1	0.02	0.11
5.25	4,695,344	968	125	267	95.8	0.62	0.74
5.50	3,926,336	1,107	85	274	93.0	0.52	1.26
5.75	961,914	227	89	274	98.3	0.13	1.38
6.00	3,457,151	587	122	240	95.2	0.46	1.84
6.25	521,165	69	118	237	97.8	0.07	1.91
6.50	341,791	56	120	236	95.9	0.05	1.96
6.75	3,143,087	428	135	224	92.6	0.42	2.37
7.00	759,033	105	150	205	91.2	0.10	2.48
7.25	147,861	21	120	224	92.6	0.02	2.49
7.50	10,611,302	1,040	169	188	91.4	1.41	3.90
7.75	358,381	32	187	168	93.6	0.05	3.95
8.00	6,577,925	560	186	171	91.3	0.87	4.82
8.25	3,667,922	260	199	158	94.3	0.49	5.31
8.50	94,753,897	2,865	324	28	93.0	12.56	17.87
8.75	2,674,941	169	211	146	93.4	0.35	18.23
9.00	109,249,836	3,213	333	20	97.3	14.49	32.71
9.25	21,895	1	201	25	133.5	0.00	32.72
9.50	161,911,077	4,504	325	21	95.5	21.47	54.19
9.75	31,176	1	268	92	93.8	0.00	54.19
10.00	95,260,659	2,345	342	7	97.6	12.63	66.82
10.50	11,161,089	325	307	31	94.3	1.48	68.30
11.00	17,649,025	473	324	23	97.4	2.34	70.64
11.50	53,301,802	1,500	306	31	94.7	7.07	77.71
11.75	34,936	1	274	86	95.0	0.00	77.71
12.00	26,833,014	887	290	56	94.4	3.56	81.27
12.25	87,049	1	338	22	91.0	0.01	81.28
12.50	64,282,842	1,807	307	34	95.9	8.52	89.81
13.00	23,495,232	730	299	42	95.1	3.12	92.92
13.50	31,569,794	979	303	43	95.0	4.19	97.11
14.00	7,140,904	238	296	54	95.5	0.95	98.06
14.50	1,677,527	67	279	72	94.5	0.22	98.28
15.00	848,681	34	272	59	95.8	0.11	98.39
15.50	11,383,169	508	270	65	93.7	1.51	99.90
16.50	751,204	38	259	68	94.5	0.10	100.00
Total	$754,149,618	26,350	311	37	95.5%	100.00%	

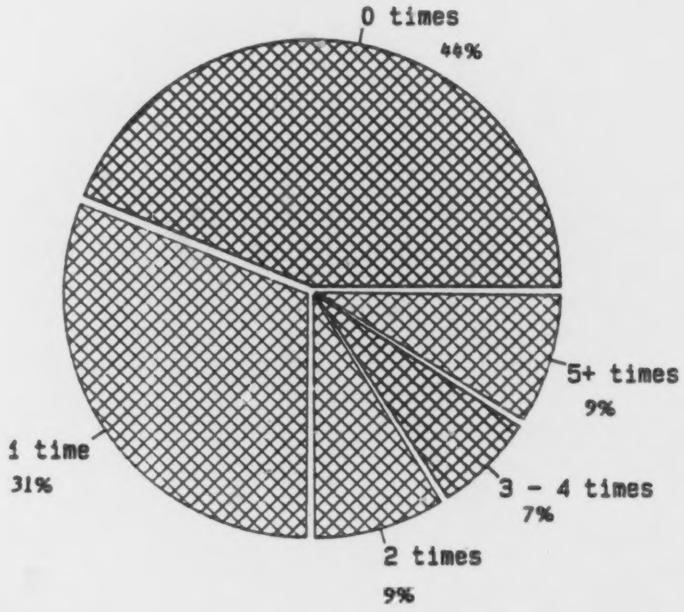
Veterans Administration Vendee Loan Portfolio
Distribution by Orig. Loan/Purchase Price Ratio



Veterans Administration Vendee Loan Portfolio
Distribution by Original Loan/Purchase Price Ratios

Loan to Purchase Price Range		Current Balance	Number of Loans	Average %	Percent of Total
0 -	9.99	$547,624	18	8.8%	0.07%
10 -	19.99	207,654	17	13.3	0.03
20 -	29.99	274,372	29	25.3	0.04
30 -	39.99	240,775	38	35.6	0.03
40 -	49.99	615,558	74	45.3	0.08
50 -	59.99	1,014,638	123	55.5	0.13
60 -	69.99	2,277,237	207	65.8	0.30
70 -	79.99	7,308,276	490	75.9	0.97
80 -	89.99	47,912,978	2,224	86.7	6.35
90 -	99.99	510,819,088	16,593	96.3	67.73
100 -	109.99	181,110,580	6,482	100.1	24.02
110 +		1,820,837	57	186.7	0.24
Total		$754,149,618	26,352	96.3%	100.00%

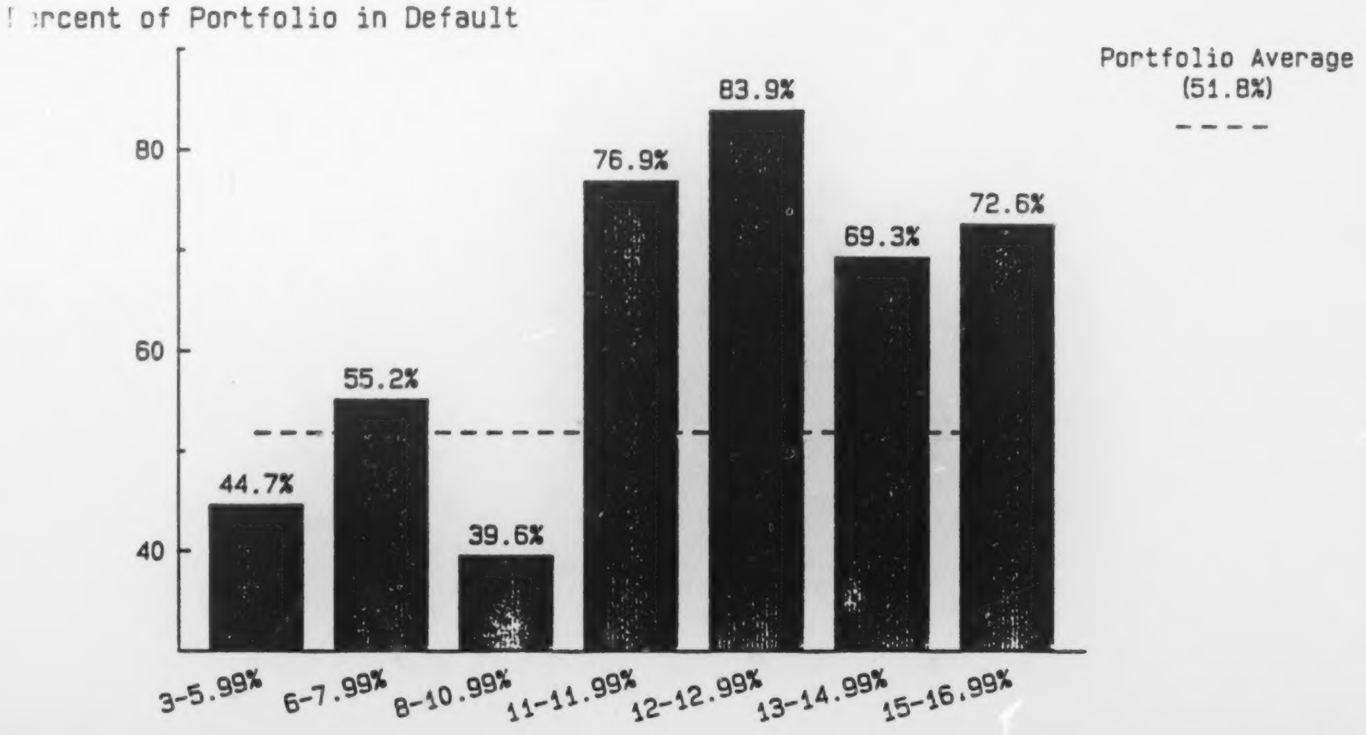
Veterans Administration Vendee Loan Portfolio
Distribution by Number of Times Delinquent



Veterans Administration Vendee Loan Portfolio
Distribution by Number of Times Delinquent

No. of Times Delinquent	Principal Balance	Number of Loans	%
0	$340,220,862	9,519	44.30%
1	238,789,434	7,156	31.09
2	69,155,998	2,429	9.01
3	33,168,969	1,354	4.32
4	19,452,544	904	2.53
5	12,646,719	686	1.65
6	8,985,968	549	1.17
7	7,118,274	453	0.93
8	5,435,608	365	0.71
9	4,574,284	312	0.60
10	3,785,098	290	0.49
11	3,318,727	282	0.43
12	2,395,715	221	0.31
13	2,110,285	199	0.27
14	1,928,812	190	0.25
15	1,813,509	192	0.24
16	1,241,105	144	0.16
17	1,173,487	124	0.15
18	950,958	110	0.12
19	909,063	117	0.12
20	866,322	113	0.11
21	832,485	107	0.11
22	634,666	90	0.08
23	633,677	84	0.08
24	606,551	89	0.08
25	414,245	72	0.05
26	511,229	89	0.07
27	370,271	67	0.05
28	391,313	69	0.05
29	373,477	57	0.05
30	348,208	64	0.05
31	273,497	48	0.04
32	285,770	55	0.04
33	228,409	44	0.03
34	197,732	33	0.03
35	180,497	33	0.02
36	100,839	22	0.01
37	168,345	37	0.02
38	174,474	35	0.02
39	160,688	33	0.02
40 - 92	1,041,657	223	0.14
Total	$767,969,769	27,060	100.00%

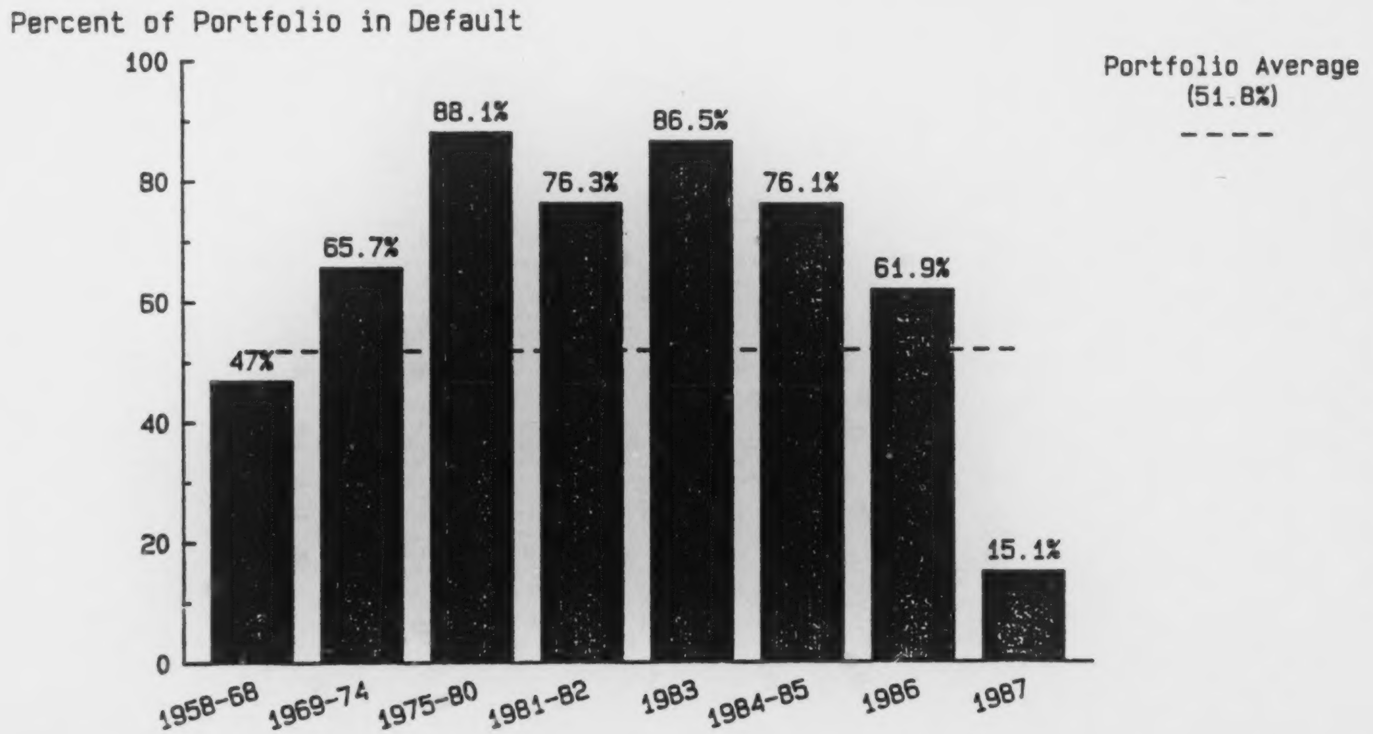
Veterans Administration Vendee Loan Portfolio Delinquencies by Interest Rate



Veterans Administration Vendee Loan Portfolio
Payment Status Distribution by Loan Interest Rate

Loan Interest Rate	Current Account	Reportable Default	Recently in Default	Not For Sale	Total Portfolio	Percent of Coupon Group: Current Account	Percent of Coupon Group: Report. Default	Percent of Coupon Group: Recently in Def.	Percent of Coupon Group: Not For Sale	Percent of Total Portfolio: All Loans	Percent of Total Portfolio: Report. Default	Percent of Total Portfolio: Recently in Def.	Percent of Total Portfolio: Not For Sale
3 - 3.99	$215,517	$78,258	$25,006	$0	$318,781	67.61%	24.55%	7.84%	0.00%	0.04%	0.02%	0.05%	0.00%
4 - 4.99	265,835	100,166	38,045	13,904	417,950	63.60	23.97	9.10	3.33	0.05	0.03	0.08	0.05
5 - 5.99	5,402,740	2,709,804	1,486,260	301,879	9,900,683	54.57	27.37	15.01	3.05	1.29	0.85	2.98	1.03
6 - 6.99	3,865,743	2,879,044	692,655	359,718	7,797,161	49.58	36.92	8.88	4.61	1.02	0.90	1.39	1.23
7 - 7.99	4,987,808	5,032,730	1,211,833	710,335	11,942,706	41.76	42.14	10.15	5.95	1.56	1.58	2.43	2.43
8 - 8.99	67,593,211	35,999,527	7,344,738	4,780,749	115,718,225	58.41	31.11	6.35	4.13	15.07	11.28	14.73	16.37
9 - 9.99	169,098,325	82,687,645	14,943,153	7,639,097	274,368,220	61.63	30.14	5.45	2.78	35.73	25.92	29.97	26.16
10 - 10.99	63,909,897	37,469,604	4,660,298	1,131,459	107,171,259	59.63	34.96	4.35	1.06	13.96	11.74	9.35	3.87
11 - 11.99	16,393,564	47,028,592	5,018,538	2,611,156	71,051,850	23.07	66.19	7.06	3.68	9.25	14.74	10.07	8.94
12 - 12.99	14,752,538	61,423,056	8,610,845	6,932,454	91,718,893	16.08	66.97	9.39	7.56	11.94	19.25	17.27	23.74
13 - 13.99	16,976,815	31,280,208	3,771,515	3,245,926	55,274,464	30.71	56.59	6.82	5.87	7.20	9.80	7.57	11.12
14 - 14.99	2,790,161	4,793,942	1,004,648	502,283	9,091,034	30.69	52.73	11.05	5.53	1.18	1.50	2.02	1.72
15 - 15.99	3,355,866	7,252,180	941,371	897,831	12,447,248	26.96	58.26	7.56	7.21	1.62	2.27	1.89	3.07
16 - 16.99	257,889	315,554	105,512	72,249	751,204	34.33	42.01	14.05	9.62	0.10	0.10	0.21	0.25
Total	$369,865,983	$319,050,325	$49,854,419	$29,199,041	$767,969,760	48.16%	41.54%	6.49%	3.80%	100.00%	100.00%	100.00%	100.00%

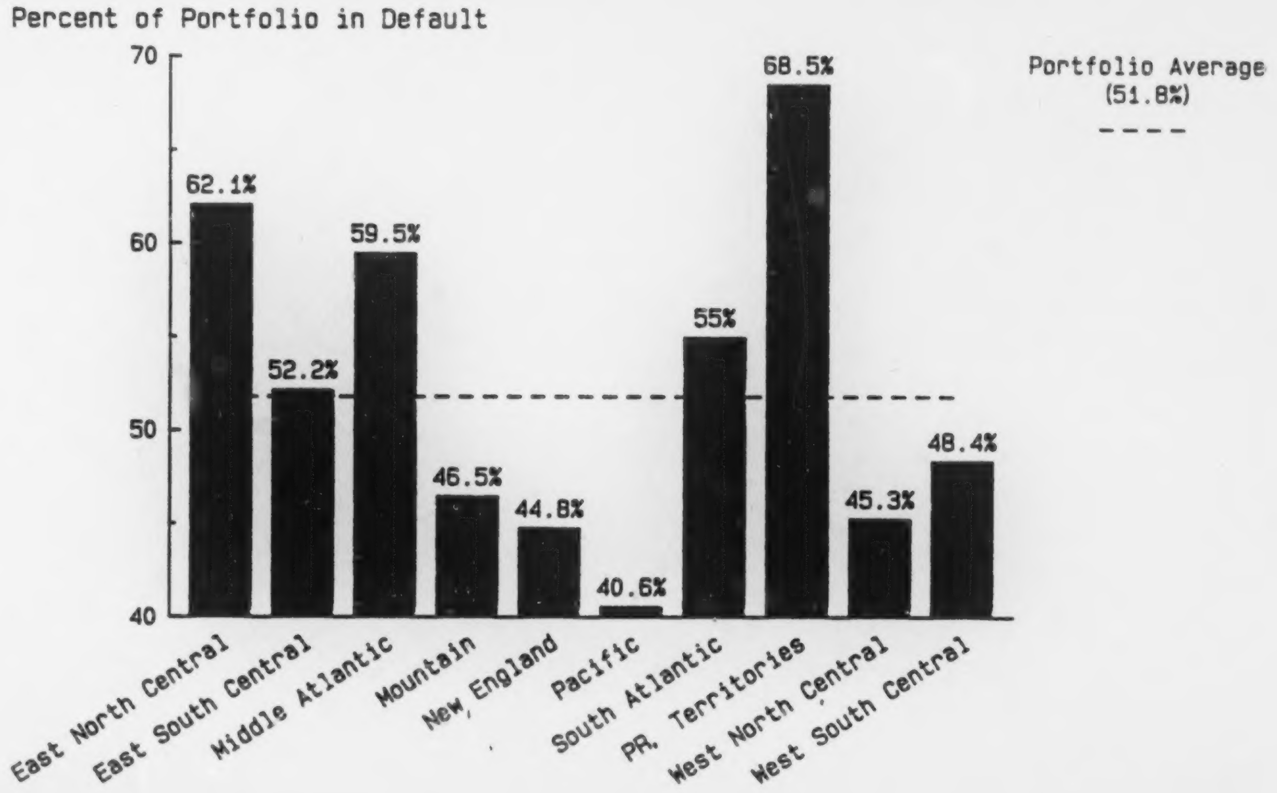
Veterans Administration Vendee Loan Portfolio Delinquencies by Year of Origination



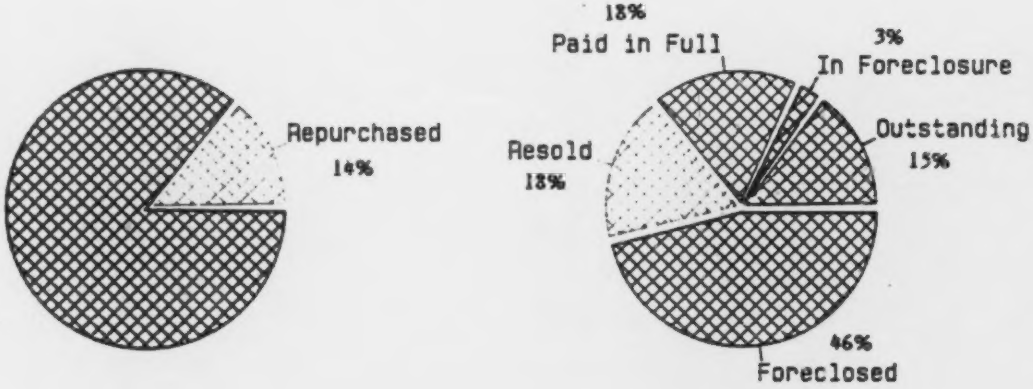
Veterans Administration Vendee Loan Portfolio
Payment Status Distribution by Year of Origination

Year of Origin.	Current Account	Reportable Default	Recently in Default	Not For Sale	Total Portfolio	Percent of Year: Current Account	Percent of Year: Report. Default	Percent of Year: Recently in Def.	Percent of Year: Not For Sale	Percent of Total Portfolio: All Loans	Percent of Total Portfolio: Report. Default	Percent of Total Portfolio: Recently in Def.	Percent of Total Portfolio: Not For Sale
1956	34,439	$-	$-	$-	34,439	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1958	21,803	8,815	4,984	-	35,602	61.24	24.76	14.00	0.00	0.00	0.00	0.01	0.00
1959	61,174	20,060	6,151	1,634	89,020	68.72	22.53	6.91	1.84	0.01	0.01	0.01	0.01
1960	52,749	44,835	22,837	7,402	127,822	41.27	35.08	17.87	5.79	0.02	0.01	0.05	0.03
1961	135,335	94,290	67,697	11,104	308,426	43.88	30.57	21.95	3.60	0.04	0.03	0.14	0.04
1962	162,523	146,465	98,861	19,693	427,541	38.01	34.26	23.12	4.61	0.06	0.05	0.20	0.07
1963	380,364	313,437	211,938	41,984	947,723	40.13	33.07	22.36	4.43	0.12	0.10	0.43	0.14
1964	939,146	702,868	304,087	87,817	2,033,918	46.17	34.56	14.95	4.32	0.26	0.22	0.61	0.30
1965	3,254,019	1,144,719	595,572	112,156	5,106,465	63.72	22.42	11.66	2.20	0.66	0.36	1.19	0.38
1966	1,220,782	754,650	291,540	118,370	2,385,341	51.18	31.64	12.22	4.96	0.31	0.24	0.58	0.41
1967	907,709	577,993	97,437	53,813	1,636,953	55.45	35.31	5.95	3.29	0.21	0.18	0.20	0.18
1968	2,009,815	1,539,155	453,781	177,456	4,180,207	48.08	36.82	10.86	4.25	0.54	0.48	0.91	0.61
1969	1,493,276	1,634,005	384,014	223,442	3,734,737	39.98	43.75	10.28	5.98	0.49	0.51	0.77	0.77
1970	414,342	948,457	193,819	150,140	1,706,758	24.28	55.57	11.36	8.80	0.22	0.30	0.39	0.51
1971	1,512,571	1,822,806	351,457	395,429	4,082,263	37.05	44.65	8.61	9.69	0.53	0.57	0.70	1.36
1972	1,758,588	2,215,053	499,900	332,995	4,806,536	36.59	46.08	10.40	6.93	0.63	0.69	1.00	1.14
1973	2,776,417	3,383,456	598,599	465,095	7,223,567	38.45	46.83	8.28	6.44	0.94	1.06	1.20	1.59
1974	2,526,702	4,858,974	1,002,131	614,319	9,002,126	28.07	53.98	11.13	6.82	1.17	1.52	2.01	2.10
1975	610,895	4,763,148	549,834	744,461	6,668,339	9.16	71.43	8.25	11.16	0.87	1.49	1.10	2.55
1976	870,984	5,790,481	890,930	1,027,944	8,580,339	10.15	67.49	10.38	11.98	1.12	1.81	1.79	3.52
1977	690,463	3,396,949	433,228	686,042	5,206,682	13.26	65.24	8.32	13.18	0.66	1.06	0.87	2.36
1978	1,704,561	11,678,610	1,798,421	2,102,801	17,284,394	9.86	67.57	10.40	12.17	2.25	3.66	3.61	7.20
1979	1,996,967	12,410,699	1,350,490	2,307,885	18,066,042	11.05	68.70	7.48	12.77	2.35	3.89	2.71	7.90
1980	2,411,747	8,299,324	1,146,132	1,780,104	13,637,307	17.68	60.86	8.40	13.05	1.78	2.60	2.30	6.10
1981	3,830,134	9,027,002	1,487,459	1,281,873	15,626,468	24.51	57.77	9.52	8.20	2.03	2.83	2.98	4.39
1982	4,707,427	12,045,205	1,712,307	1,976,866	20,441,806	23.03	58.92	8.38	9.67	2.66	3.78	3.43	6.77
1983	5,841,588	29,610,920	3,776,377	4,091,788	43,320,673	13.48	68.35	8.72	9.45	5.64	9.28	7.57	14.01
1984	20,560,255	46,078,750	6,458,616	3,690,841	76,788,463	26.78	60.01	8.41	4.81	10.00	14.44	12.96	12.64
1985	15,412,068	50,910,177	5,242,223	2,244,746	73,809,210	20.88	68.98	7.10	3.04	9.61	15.96	10.52	7.69
1986	48,500,414	67,136,055	9,639,278	1,955,593	127,231,340	38.12	52.77	7.58	1.54	16.57	21.04	19.33	6.70
1987	237,718,424	31,526,377	9,161,393	1,444,208	279,850,402	84.94	11.26	3.28	0.52	36.44	9.88	18.44	4.95
2022	5,378,002	6,164,590	992,726	1,050,440	13,585,758	39.59	45.38	7.31	7.73	1.77	1.93	1.99	3.60
Total	$369,885,983	$319,050,325	$49,864,419	$29,199,041	$767,999,768	48.16%	41.54%	6.49%	3.80%	100.00%	100.00%	100.00%	100.00%

Veterans Administration Vendee Loan Portfolio Delinquencies - Distribution by Region



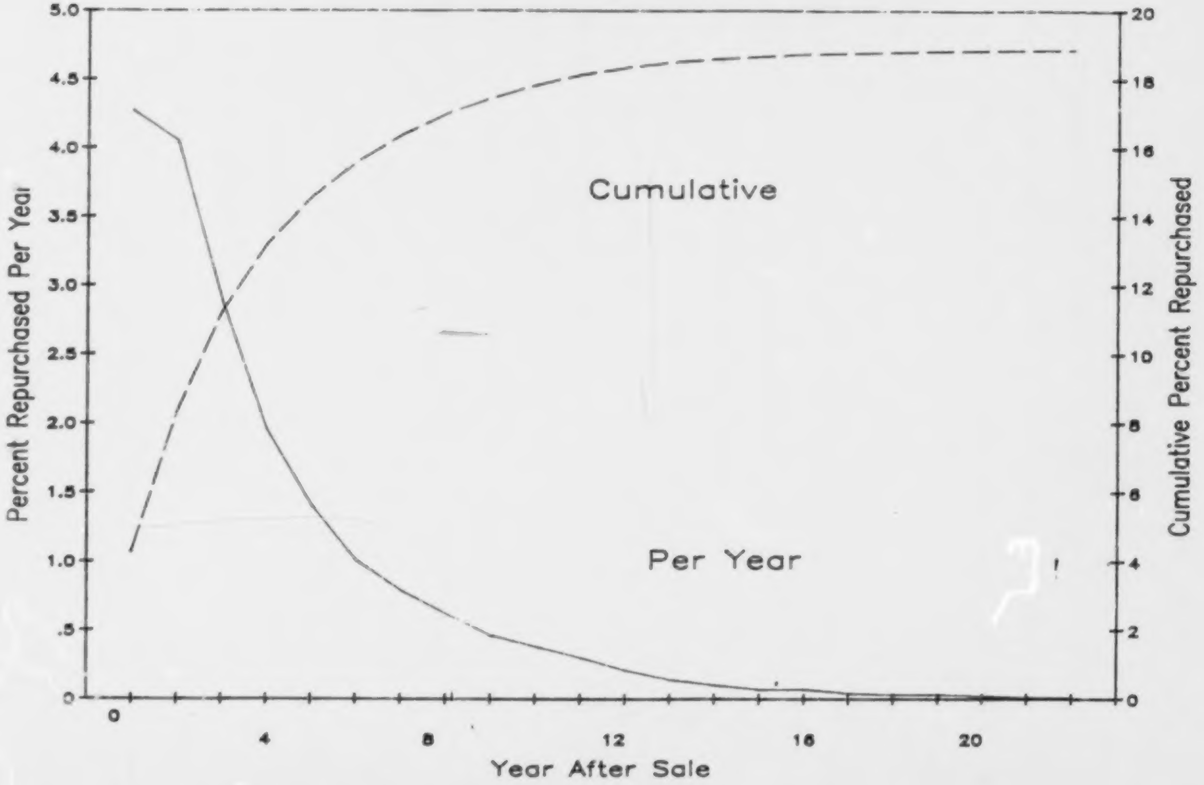
Vendee Loans Made, 1975 - 1983
Final Disposition



All Vendee Loans

Repurchased Loans

Veterans Administration Vendee Loan Portfolio
Repurchases after Year of Sale
(Loans made 1962 - 1985)



B. Financing Structure

There are essentially two different methods of selling VA loans: 1) sale of the loans themselves directly to private investors (i.e., a whole loan sale); or 2) sale of the loans to an issuer which creates a new security (i.e., a securitized sale). Each of these two methods and their implications for VA's loan disposition program are discussed further below.

1. Whole Loan Sale Option

If VA sold a particular loan or package of loans directly to an individual or group of purchasers, it would receive a dollar price for that loan portfolio. This price would be based on a variety of factors such as: 1) the perceived credit risk of the loans; 2) the loans' interest rate; 3) their projected average life; and 4) the perceived liquidity of the asset. The aggregated effect of these factors would determine the discount from par which VA would receive from the sale. In essence, VA's April 1987 request for bids for a nonrecourse sale constituted a whole loan sale program.

2. Securitized Sale Option

Under this approach, VA would utilize a pooling and securitized approach rather than selling individual or small groups of whole loans. To accomplish this, the loans would be sold to an entity which would simultaneously sell securities in the public market to finance this transaction. These securities would be secured by VA's loans. In the case of a securitized sale, the proceeds received by VA would again be determined by factors such as the maturity and coupon of the security; its liquidity; the perceived credit risk, etc.

To date, the securitized option has been used for each of the Federal Government's non-recourse sales (i.e., for FmHA's Rural Housing and Community Program sales and for the Department of Education's loan sale). Although a whole loan sale is in certain respects a simpler and less expensive transaction, securitization offers a number of advantages such as:

1) It expands the marketing horizon for the issuer. The investing community for whole pool mortgages is limited almost exclusively to savings and loans and to a handful of insurance companies. The market for highly-rated securitized offerings extends to the entire fixed income market, which includes all financial institutions, insurance companies, pension funds, and money managers. By broadening the investor base, the issuer's dependence on a particular industry's appetite for a particular form of instrument at a particular time is lessened;

2) It increases the liquidity of the offering, which also serves to attract a larger pool of potential investors. The extensive secondary market for highly rated, publicly offered securities is an attraction for investors, who therefore pay more for these products. Whole loan sales, by contrast, are limited to private placements and are much less liquid investments;

3) It facilitates the sale by reducing investors' concerns about credit risk. With whole loan transactions, fiduciary responsibility often dictates that a purchaser re-underwrite each loan individually since the investor is subject to the entire loss on any property which defaults in the pool of loans purchased. With a securitized offering, an investor purchases only a small percentage of a much larger pool of loans, thus

sharing pro-rata on the losses of all the loans in the pool. This diversification and risk sharing is attractive to investors and again results in higher proceeds for the issuer; and

4) It enables the seller of the mortgages to maintain a continuing interest in the loans and thus realize the "upside" benefits that can materialize over time if the loans perform better than anticipated. In a whole loan sale, by contrast, the seller has no such "contingent asset" and cannot benefit from any improved performance.

The alternative of securitization also raises a number of complicated issues, however. Foremost among these is the tax and legal structures which should be selected for the financing entity. Among the legal structures available are corporate issuers, business trusts, registered investment companies (RICs) and pass-through trusts. Tax options include real estate mortgage investment conduits (REMICs), grantor trusts, regulated investment companies, and debt issuance. These alternatives are discussed in more detail in Section I(C).

As the above discussions demonstrate, the structuring of VA's financing will be a complex endeavor. Moreover, it is quite possible that different packaging or sales strategies will be appropriate for different loan groups (e.g., those loans in VA's current portfolio as opposed to new originations). To realize the maximum value from the sale of VA's portfolio, Kidder, Peabody would therefore investigate a variety of packaging strategies for its loans. To accomplish this task, the results of the asset analysis discussed in Section I(A) of this proposal would be utilized. For example, loans might be sorted and packaged based on criteria such as the following:

1. **Geographic Location** - Most investors look for a geographically diversified portfolio so that they are not subject to unusual economic risk. The location of VA's loans, by both county and state, should therefore be taken into account when packaging strategies are developed. In addition,

the drawbacks of selling loans in thinly-covered geographic areas that are costly to service should be considered.

2. **Loan Coupon** -- Loans sold are generally packaged according to their coupon rate to maximize the structural efficiency of the financing. To a great extent, this reflects the market's expectations regarding the likelihood of the loans' prepayment. As described earlier, the loan coupons in VA's August 1987 portfolio were relatively homogenous. This will enable VA to issue series of securities with very tight interest rate groupings, allowing it to sell as much of the cash flow as possible and minimize "leakage."

3. **Loan Size** -- Loans with small principal balances are costly to securitize. VA should therefore consider whether to screen out from sales those loans with balances of less than $10,000 (Excluding such loans, the average loan balance in VA's August 1987 portfolio was $35,500. Less than 4% of the loans had current balances in excess of $100,000. These numbers, which are roughly half the size of conventional mortgages, suggest that securities produced from vendee loans might benefit from the "law of large numbers." That is, since there will be more loans per dollar of security, the investor will benefit from a higher degree of cash flow and credit diversity.)

4. **Loan Term** -- The loans in VA's existing portfolio mature at widely different times, ranging from 1987 to 2023. The loans could be sorted and priced by maturity to appeal to buyers seeking securities of different maturities. Loans with very short remaining terms (e.g., less than five years) can not be securitized as efficiently as longer term loans, so that consideration should be given to screening them out.

5. **Repayment Status** -- VA's portfolio has a high proportion of delinquent loans. Unfortunately, rating agencies and investors give little if any credit to distressed loans. As a result, loans which are not current should probably be screened out of the portfolio to be sold.

6. **Loan to Value Ratio** -- Loans with lower loan to value ratios (LTVs) are considered more valuable because there is a smaller likelihood that their borrowers will default. VA's vendee loan regulations permit it to make loans for up to 100% of the mortgaged property. This ratio diminishes over time, however, as the loan amortizes. It might therefore be advantageous for VA to package separately loans with significantly higher LTVs than the pool average.

7. **Condition of Property** -- VA's policies regarding the repair of acquired properties encompass a wide range of possible actions. Improvements can be limited to initial clean-up or, if appropriate, can be far more extensive. The Financial Advisor should explore with VA whether it would be both advantageous and feasible to package loans according to the condition of the property which constitutes their collateral.

8. **Status of Title** -- In certain states VA can take title to and sell properties which are subject to outstanding redemption rights. The inclusion of such loans in a sale could have an impact on both the structuring and the marketing of the transaction. The desirability of including loans still subject to redemption should therefore be explored.

9. **Type of Occupancy** -- Under certain circumstances, VA can sell properties for investment purposes through bulk sales. These properties are generally more distressed than the average home VA acquires. Since investors and rating agencies normally evaluate offerings on the "weakest link" theory, the presence of such properties in a pool could conceivably reduce VA's overall proceeds. The possibility of selling them separately should therefore be considered.

10. **Type of Collateral** -- A significant proportion of VA's loans are secured by installment contracts rather than first mortgages. As described further in Section I(C), it may be desirable to package and sell these loans separately to have the greatest flexibility in selecting a beneficial legal and tax structure for VA's remaining loans.

Finally, in developing VA's sales and marketing options, it is also imperative that the Financial Advisor analyze the full range of credit enhancement options open to VA and the financial consequences of each. Credit enhancement for a securitized financing may be obtained "externally," through bond insurance, letters of credit or other guarantees of security, or it may be built into the pool structure through such "internal" techniques as overcollateralization, deep discount sale or certain legal structures. For example, a senior/junior lien structure, where the senior position is sold to investors for upfront cash and the subordinated or junior position retained by VA, at least temporarily, could be utilized. This is essentially a form of overcollateralization that would enable VA to hold and receive ongoing payments from the "subordinated" excess collateral unless and until that cash flow was needed to pay the "senior" cash flows. Given the possibility that the market could overestimate and thus overprice the risk represented by VA's loans, this senior/subordinated approach could produce the greatest total proceeds to VA.

The possibility of combining external and internal credit enhancement, as was done in FmHA's Rural Housing sale, should also be considered since it could offer several additional advantages to VA. Three of those advantages which Kidder, Peabody would investigate are described briefly below:

- External credit enhancers, while requiring the payment of a fee simultaneous with the closing of the loan sale (thereby reducing loan sale proceeds), can be expected to demand a significantly lower level of subordination than that required by the rating agencies for a comparable rating. Equally important, it is our experience that, for a given portfolio of loans, the later classes of a multiclass security credit enhanced by bond insurance are more attractive than those credit enhanced only through subordination. These two factors can more than make up for the additional fee the insurers charge.

- Using external credit enhancement could significantly decrease the amount of time and effort needed to explain VA's product to investors. Using insurance companies in essence short circuits this process because they serve as surrogates for the purchasers. Rating agencies, while performing a similar function, reserve the right to reduce their rating if circumstances change over time. Credit enhancers cannot cancel their insurance policies no matter what changes take place.

- Securities laws and Securities and Exchange Commission (SEC) regulations require a significant amount of due diligence on any loan portfolio that is securitized and offered for sale in the capital markets. Such information may be difficult to assemble for VA's portfolio. In such a case, the presence of external credit enhancement could reduce the amount of due diligence to which VA is subject and decrease its exposure under the representations and warranties it must provide. Credit enhancement could also reduce registration difficulties with the SEC.

The cost of credit enhancement -- whether in the form of a fee to a third party surety or greater subordination or discount -- will depend on various considerations such as a loan portfolio's historical delinquency rates and trends, its degree of diversity, the quality of documentation, etc. Kidder, Peabody's expertise in this area would ensure that the full range of options, together with an accurate assessment of their costs and benefits, would be available to VA. In fact, as part of our response to VA's proposed April 1987 nonrecourse sale, we discussed VA's portfolio with the Financial Guaranty Insurance Company (FGIC), the designated representative of the American Loan Guarantee Association (ALGA). (ALGA is a consortium of the six major credit enhancement companies which have agreed to act in concert in dealing with the Federal government's asset sales efforts. It was this consortium which provided the insurance for FmHA's Rural Housing sale.) A letter from FGIC to Kidder, Peabody included as Appendix B, illustrates some of the factors which will determine what type of credit enhancement is most desirable. Although FGIC was not able to complete the detailed analysis of VA's portfolio it required in the five week period VA's request for bids provided, it remains interested in pursuing this opportunity today.

C. Tax and Legal Structures

As indicated earlier, if a securitized sale is undertaken, the tax and legal structures which should be selected for VA's financing entity are an important consideration. The following table summarizes the primary alternatives available to VA.

State Law Entity	Securities Issued	Tax Treatment Options
Corporation - Profit - Non-Profit	Pay-Through Bonds	1) Debt 2) REMIC Election
Fixed Investment Trust (Pass-Through Trust)	Pass-Through Certificates	1) Grantor Trust 2) REMIC Election
Business Trust (Owners Trust)	Pay-Through Bonds	1) Debt 2) REMIC Election
Business Trust (Registered Investment Co.)	Pay-Through Bonds	1) Debt

Depending on VA's goals and policy objectives, each of these alternatives would also entail certain benefits and certain drawbacks. Factors to be considered in evaluating these options include the need to: 1) prevent double taxation at the entity and investor level; 2) facilitate securities registration by taking advantage of available exemptions; 3) provide the ability to tailor cash flows so as to maximize VA's sales proceeds; and 4) maximize the types of institutions to which the securities could be marketed. These alternatives are discussed in greater detail in the memorandum from Brownstein Zeidman and Schomer included as Appendix C.

In the case of FmHA's Rural Housing sale, which also involved single-family mortgages, Kidder, Peabody ultimately determined that the combination of a pass-through trust with a REMIC election would be the most beneficial approach. An important advantage was the flexibility REMIC offered to 1) freely transfer and sell subordinated interests; and 2) structure cash flows so as to take maximum advantage of market opportunities. In addition, the fact that REMICs are considered eligible real estate assets for savings institutions enhanced the marketability of FmHA's securities.

In the case of VA's loans, however, there are two additional factors which should be considered. First, in order to qualify as a REMIC, substantially all of the REMIC's assets must consist of qualified mortgages and permitted investments. Whether or not the Installment Contracts for Sale of Real Estate entered into by VA would constitute "qualified mortgages" under the REMIC provision must be determined. Brownstein Zeidman and Schomer's recent discussions with IRS personnel indicate that they would be. However, continuing analysis of this issue is needed and, if this structure were to be selected, a private letter ruling relating to the classification of the installment contracts might be required.

A second important consideration stems from the fact that the proposed Technical Corrections Act of 1987 would, under certain conditions, impose a tax on REMICs if a residual interst in the REMIC is held by any federal, state or local agency. Taxation of the REMIC would result in a reduced yield to regular interest holders, thus detracting substantially from the advantages this structure would offer. Brownstein Zeidman and Schomer is currently discussing this issue with Congressional staff and will monitor its final decision.

Another alternative which could offer particular benefits to VA is the Registered Investment Company (RIC). This structure was selected for use in the Department of Education's non-recourse sale. Since a RIC issuer is not taxed on market discount and phantom income as long as it satisfies minimum dividend distribution requirements, it too can be a very efficient structure. As described in more detail in Appendix C, however, the final determination as to the structure VA should use can only be made after all factors pertaining to its loans have been reviewed, the options explored in detail with the SEC and IRS, and various issues resolved with Congressional staff.

D. Due Diligence Requirements

The representations, warranties, and information on loan documents and previous portfolio performance required for a large scale loan sale are complex and extensive, particularly when that sale is non-recourse. An important responsibility for VA's Financial Advisor will be to determine what documents and information will be available, both on a historical and a current basis, to fulfill the normal due diligence requirements of a loan sale. In particular, when assigning a rating to mortgage-backed securities, the rating agencies are concerned about the investors' receipt of timely interest and ultimate principal. The implications of this concern for VA are discussed further below.

Timeliness of interest, or a securities' "cash advance mechanism", is evaluated by reviewing:

- historical portfolio delinquencies, to help identify the amount of the external cash advance which may be required;
- servicing procedures, to determine the degree of cash advances already provided for, and to determine the adequacy of the servicer's collection, billing, and tax and insurance escrow maintenance procedures; and
- the financial condition of the servicer, to determine whether existing servicer procedures will serve as a "rateable" cash advance mechanism.

The assurance of the investors' receipt of principal, as measured by the credit quality of the loans, is another major concern of the rating agencies. Principal determinants of credit quality are:

- historical foreclosure frequencies and loss severity upon liquidation;

- current or original market value of the real estate, preferably as evidenced by a standard appraisal;
- insurance coverage (e.g., title, homeowners, special hazard, primary mortgage insurance);
- escrows for property taxes and insurance;
- loan documentation (e.g., mortgage, note, deed, title policy, appraisal, etc.); and
- origination/underwriting practices (e.g., approval income ratios, appraisal policies, credit checks).

Through Kidder, Peabody's involvement with FmHA's Rural Housing and Community Program loan sales, we gained valuable experience in the type of due diligence that can be performed for Federal asset disposition programs. In the case of both portfolios, we discovered that the Federal Government frequently does not maintain its loan documents or accumulate data in the ways normally required by securities purchasers. This can have a significant impact on both the cost and the type of the securitization method which can be employed.

These differences were particularly problematic for the Rural Housing portfolio, which 1) involved in excess of one million individual loans located throughout the United States, 140,000 of which were ultimately sold; and 2) had to be completed within a very limited timeframe. Kidder, Peabody therefore worked extensively with FmHA, its underwriters, and prospective loan servicers to develop workable solutions to these problems. We designed a post-sale due diligence process and developed a series of representations and warranties which met all of the requirements of the Federal Credit Working Group, while at the same time conforming to the normal requirements of private sector loan sales. We also worked with FmHA to identify certain revisions in its data collection procedures that would bring its credit administration procedures more in line with private sector practices and thus expedite future financings. Kidder, Peabody would bring this same expertise to bear on VA's vendee loan sales, thus dealing effectively with what could otherwise be a very problematic step in the loan sale process.

E. Servicing Issues and Options

The arrangements made to transfer the servicing of VA's vendee loans will have important implications for the success of VA's loan sale program. For several reasons, in order for VA to realize the full value of its loans, an effective private sector servicing plan must be developed. First, the servicing itself must be reasonably priced so that the largest possible amount of the loans' cash flow is available to sell to investors. Second, the rating agencies must be satisfied regarding the financing's credit and its cash advance mechanism. Since the rating agencies view the servicer as an integral part of an offering's cash advancing mechanism, they require that the servicer be rated no lower than one level below the rating assigned to the transaction itself. To achieve a high quality rating, VA will therefore need to identify servicers which have the necessary rating. Alternatively, the servicers may be able to obtain a performance bond to meet rating requirements. Third, if VA retains (even temporarily) a subordinate position in the loans it sells, the amount of ongoing cash it receives will depend to a great extent on the quality of the loans' servicing. An understanding of the potential servicers of VA's vendee loans, the fees they would charge, and the process by which they would carry out their responsibilities is therefore critical to VA's asset disposition effort. This is particularly true since the servicing requirements for these loans will be far more extensive than for those loans previously sold through VA's recourse sales, where the purchaser was not responsible for foreclosing and disposing of defaulted loans.

Kidder, Peabody gained extensive experience in the transfer of servicing through its financial advisory work for FmHA's Rural Housing sale. The process of transferring the loan servicing for that transaction was one of the most complex aspects of the entire sale since FmHA's Section 502 mortgagors are entitled to a wide array of "borrower rights," including payment moratoriums and interest rate subsidies, which are without parallel in the private sector. In addition, the rural housing loans have substantially different payment characteristics and procedures -- e.g., "simple interest payment" schedules in lieu of standard amortization, staggered payment dates, etc. -- which made the transfer more difficult. Finally, the fact that there was insufficient time to transfer servicing before the sale, so that a two year phase in period was used, made it far more difficult to pinpoint costs and thus specify the pass-through rate of FmHA's securities to investors.

Kidder, Peabody was instrumental in developing an approach which responded to these problems while at the same time meeting all of the requirements of the Federal Credit Working Group. Prior to FmHA's sale, a master servicer was selected to be responsible for functions such as 1) selecting, supervising, and guaranteeing the performance of the sub-servicers; 2) establishing loan-by-loan accounting and reconciliation systems; and 3) calculating and disbursing the principal and interest payments to the security holders. We then designed a special payment and reserve mechanism flexible enough to provide appropriate and varying amounts for sub-servicing over the full 30 year life of the securities. At the same time, we established a fixed pass-through rate and provided for any excess cash to flow to FmHA in the most advantageous way possible.

The process of transferring the servicing of VA's loans should be much less complicated since 1) VA's portfolio does not have the same unique features as the FmHA's loans; 2) the number of loans involved will be far more manageable; and 3) the transfer of servicing before sale should be feasible. Kidder, Peabody would work with VA and the underwriter it selects to identify potential private sector servicers who specialize in servicing large loan portfolios. We would also evaluate the advantages of using a master servicer/sub-servicer system in lieu of selecting a single entity to be responsible for all these functions. (The second approach, for example, might be preferable for geographically homogeneous loan pools, while the first -- which would involve a regional network of subservicers — might be more desirable for a geographically diverse loan pool.) Kidder, Peabody's expertise in this area will enable us to assess a variety of alternative servicing strategies as well as evaluate potential servicers as quickly as possible.

F. Timetable

To demonstrate how Kidder, Peabody would fulfill the requirements of VA's Statement of Work, we have prepared a detailed table containing the timing and sequence of activities we would expect to follow. Certain assumptions were made in preparing this timetable, e.g., 1) that VA will award its financial advisory contract by the week of November 30, 1987; 2) that the Request for Proposal for underwriters must provide for a response time of one month; and 3) that a total of three sales will be held in fiscal year 1988, the first in March, the second in June, and the third in September. This schedule would allow VA's existing vendee portfolio as well as its new originations to be sold in fiscal year 1988.

Kidder, Peabody Timetable for VA Vendee Loan Sale Program

KEY DATES

Organizational Meeting	Week of November 30th
Publication of Underwriting RFP	Week of December 21st
Appointment of Underwriting Team	Week of February 1st
Closing of First Transaction	Week of March 24th
Closing of Second Transaction	Week of June 23rd
Closing of Third Transaction	Week of September 22nd

PARTICIPANTS

Veterans Administration	VA
Kidder, Peabody & Co.	KP
Brownstein Zeidman and Schomer	BZS
Underwriters and Counsel	U

TRANSACTION #1

Date	Major Activities	Responsibility
Week of Nov. 30	• Initial meeting with VA representatives. Review VA organization and program procedures.	VA, KP, BZS
	• Identify categories of data needed to determine nature of VA's loan assets and develop criteria for sale.	KP
	• Review VA data processing system and availability of needed information.	VA, KP
	• Analyze program's underlying documents (e.g., loan documents, regulations, etc.).	KP, BZS
Week of Dec. 7	• Begin analysis of collateral characteristics (e.g., location, note rates, delinquency rates, etc.).	KP
	• Analyze advantages and disadvantages of various legal and tax structures (e.g., REMIC, RIC, owner's trust, fixed investment trust, etc.).	BZS
	• Visit selected VA field office to review loan origination and documentation procedures.	KP
Week of Dec. 14	• Submit report specifying recommended criteria for selection of vendee loans to be sold.	KP
	• Develop packaging strategies for loans to be sold. Develop associated financial models to measure potential sales proceeds.	KP
	• Draft RFP for underwriters.	KP
	• Continue analyses of collateral characteristics.	KP

Date	Major Activities	Responsibility
Week of Dec. 21	• Submit assessment of strategies for selection and packaging of loans.	KP
	• Finalize and publish RFP for underwriters.	VA, KP
	• Continue analysis of collateral characteristics.	
Week of Dec. 28	• Meet with public interest groups.	VA, KP, BZS
	• Develop servicing options.	KP
	• Continue analysis of collateral characteristics.	KP
Week of Jan. 4	• Hold public meeting with potential underwriters and servicers, rating agencies, credit enhancers, etc.	VA, KP, BZS
	• Develop range of marketing strategies for sale.	VA, KP
	• Continue analysis of collateral characteristics.	KP
Week of Jan. 11	• Hold follow-up meetings with rating agencies and credit enhancers.	KP
	• Evaluate marketing strategies for sale.	KP
	• Continue analysis of collateral characteristics.	KP
Week of Jan. 18	• Submit report on marketing strategies to VA.	KP
	• Hold briefing on marketing strategies.	KP, VA
	• Continue analysis of collateral characteristics.	KP

Date	Major Activities	Responsibility
Week of Jan. 25	- Review underwriting proposals.	VA, KP, BZS
	- Commence oral interviews with potential underwriters.	VA, KP, BZS
Week of Feb. 1	- Conclude oral interviews with potential underwriters.	VA, KP, BZS
	- Submit report recommending selection of underwriters.	KP
	- Select underwriting team, including managers, issuer's counsel and underwriter's counsel.	VA, KP, BZS
Week of Feb. 8	- Hold organizational meeting to discuss program, collateral, legal and financing options, and servicing RFP.	VA, KP, BZS, U
	- Determine legal structure; commence drafting of filing documents; hold informal discussions with IRS and SEC, if necessary.	VA, KP, BZS, U
	- Publish RFP for servicer/ master servicer.	VA, KP, BZS, U
	- Determine scope of due diligence.	VA, KP, BZS, U
	- Determine mortgage pool parameters, including screening criteria.	VA, KP, BZS, U
Week of Feb. 15	- Circulate and discuss initial drafts of filing documents.	VA, KP, BZS, U
	- Revise filing documents.	BZS, U
	- Commence due diligence review.	U

Date	Major Activities	Responsibility
	• Select document bond printer.	VA, KP, U
Week of Feb. 22	• Circulate and discuss revised documents. Finalize documents to be filed with SEC.	VA, KP, BZS, U BZS
	• File SEC shelf registration statement and all other documents.	BZS, U
	• Hold follow-up discussions with credit enhancers.	VA, KP, BZS, U
	• Review proposals for servicer/ master servicer. Interview candidates for trustee and master servicer.	VA, KP, U
Week of March 7	• Continue due diligence review.	U
	• Begin drafting closing documents.	BZS, U
	• Finalize mortgage selection criteria.	VA, KP, U
	• Select regional custodian.	VA, KP, U
	• Hold formal presentations for rating agencies.	VA, KP, U
	• Select master servicer and trustee.	VA, KP, U
Week of March 14	• Review comments from SEC; circulate amended documents; hold document review meetings.	VA, BZS, KP, U
	• Complete revised documents.	BZS, U
	• File amended documents with SEC.	BZS, U
	• Hold investor meetings in selected cities.	U

Date	Major Activities	Responsibility
	• Commence Pre-pricing discussions.	VA, KP, U
	• Brief public interest groups.	VA, KP
Week of March 21	• SEC declares shelf registration statement effective.	
	• Deliver tape with balances for end of February to underwriters.	VA
	• Rating agencies award rating.	BZS, U
	• Finalize closing documents.	BZS, U
	• Assemble loan files and transfer to custodian.	VA, U
	• Hold pre-pricing meetings.	VA, KP, U
	• Price securities.	VA, KP, U
	• File supplement to prospectus with SEC.	BZS, U
	• Execute underwriting agreement.	VA, U
	• Complete due diligence.	U
Week of March 28	• Closing of first transaction.	BZS, VA, KP, U
Weeks of April 4-April 18	• Custodians review mortgage files and notify VA of exceptions.	
	• Transfer sub-servicing functions to sub-servicers.	VA
	• Submit post sale analysis (e.g., analyzing pricing, sales performance, net proceeds to VA, etc.).	KP

Date	Major Activities	Responsibility
Weeks of April 25 - May 2	Evaluate performance of underwriter, master servicer, and trustee.	VA, KP

TRANSACTION #2

Date	Major Activities	Responsibility
Week of June 6	Review previous mortgage selection criteria and financing structure. Modify as necessary.	VA, KP, U, BZS
	Revise and circulate documents if necessary.	U, BZS
Week of June 13	Deliver tape with balances for end of May to underwriters.	VA
Week of June 20	Rating agencies award rating.	
Week of June 27	Finalize documents.	U, BZS
	Assemble loan files and transfer to custodians.	VA
	Hold pre-pricing meetings.	VA, KP, U
	Price securities.	VA, KP, U
	File prospectus supplement with SEC.	BZS, U
	Execute underwriting agreement.	VA, U
	Closing of Transaction #2.	VA, KP, BZS, U
Week of July 4	Custodians review mortgage files.	
Week of July 11	Transfer sub-servicing to sub-servicers.	VA
	Submit post-sale analysis to VA.	KP

TRANSACTION #3

Date	Major Activities	Responsibility
Week of Aug. 15	• Review previous mortgage selection criteria and financing structure. Modify as necessary.	VA, KP, U, BZS
	• Revise and circulate documents if necessary.	U, BZS
Week of Aug. 22	• Deliver tape with balances for end of July to underwriters.	VA
Week of Aug. 29	• Rating agencies award rating.	
Week of Sept. 25	• Finalize documents.	U, BZS
	• Assemble loan files and transfer to custodians.	VA
	• Hold pre-pricing meetings.	VA, KP, U
	• Price securities.	VA, KP, U
	• File prospectus supplement with SEC.	BZS, U
	• Execute underwriting agreement.	VA, U
	• Closing of Transaction #3.	VA, KP, BZS, U
Week of Sept. 12	• Custodians review mortgage files.	
Week of Sept. 19	• Transfer sub-servicing to sub-servicers.	VA
	• Submit post-sale analysis to VA.	KP

II. Offeror's Knowledge and Experience

Kidder, Peabody is uniquely qualified to provide the financial advisory services sought by VA for its vendee loan sale program. Recognized as one of the world's foremost investment banking firms, Kidder, Peabody has for over a century helped a vast array of clients -- both domestic and international, both private and public sector -- resolve complex financing needs. The particular areas VA's transactions will involve -- asset finance and fixed income -- are both fields in which Kidder, Peabody excels. Of equal importance is the firm's experience in Federal loan sales, gained through our selection as Financial Advisor for FmHA's $1.75 billion Rural Housing loan sale and co-manager of its $1 billion Community Program loan sale. Qur experience in each of these areas and its value to VA is described below. A list of the organizations with which we have worked on mortgage-backed securities issues is also provided.

A. Asset Finance

The Asset Finance Department, one of seven major operating divisions within Kidder, Peabody, specializes in the creation of new investments from the cash flows of underlying assets such as residential mortgages, commercial real estate, industrial, commercial, and consumer receivables, etc.

Over the past three years, the Asset Finance Department has established Kidder, Peabody as a major participant in the growing mortgage backed securities market, in which GNMAs, FNMAs, FHLMCs and "whole loans" are packaged and sold to investors in increasingly complex formats. To date in 1987, the firm has served as senior managing underwriter for $3.4 billion in collateralized mortgage obligations (CMOs) and $1.1 billion in pass-through securities. This represents an increase of 155% over our performance in 1986, which in turn represented an increase of almost 1,000% over our activities in 1985. During the process of becoming a leading force in mortgage-backed securities, Kidder, Peabody participated in many important innovations in such instruments, including planned redemption obligation bonds (PROs), floating and reverse floating rate CMOs, interest only/principal only mortgage securities, and CMOs for retail distribution.

The sophisticated, computer-based cash flow analysis capability that underlies Kidder, Peabody's success in these areas will be essential to VA's loan sale program. Our computer staff routinely reviews large portfolios of mortgages and other assets and segments their cash flow into optimal groups which maximize the return to the issuer. The firm's ability to simulate alternative sales structures and select the most beneficial one will enable us to quickly develop a successful securitization strategy for VA's loan assets. We are comfortable with transactions of all sizes, having managed offerings as small as $12 million and as large as $750 million.

The Asset Finance Department includes six primary groups, each with responsibility for specific asset categories and/or client targets. One of these groups, the Government Agency Finance Group, would have primary responsibility for VA's asset disposition project. The Government Agency Finance Group directs Kidder, Peabody's efforts to assist various federal agencies in the disposition of their loan portfolios and is responsible for the structuring of mortgage backed securities for other public sector clients such as state and local housing finance agencies. The Group has achieved notable successes in both these areas. First and most important, in January 1987, Kidder, Peabody was named Financial Advisor to FmHA for its Rural Housing loan sale, the largest of the asset disposition programs undertaken to date by the Federal Government. This difficult assignment required that Kidder, Peabody develop a securitization program enabling FmHA to net $1.715 billion from the sale of single family home loans in rural areas before the end of fiscal year 1987. The portfolio's size, its high delinquency rate, and its unusual borrower rights all contributed to the complexity of this task. Over a ten month period, Kidder, Peabody worked with FmHA to analyze and stratify its $22 billion loan portfolio; develop effective packaging and marketing strategies; select an underwriting team; and design innovative financing and loan servicing structures that would maximize FmHA's proceeds. The resulting financing was one of the most innovative mortgage backed securities transactions ever developed. It featured 1) a senior/subordinated pass-through; 2) external credit enhancement; 3) a single REMIC pass-through trust divided into a variety of classes and sequential pay subclasses; 4) a subordinated servicing reserve strip; and 5) innovative "cross-support" and "shifting interest" mechanisms to improve the structure of the security. The transaction encompassing 140,000 loans totalling $2.97 billion was successfully sold in September 1987, yielding $1.75 billion in upfront proceeds for the Federal Government. The market value of the subordinated certificates and residual interest retained by FmHA is further estimated at $150 - $300 million. Second, Kidder, Peabody was selected as co-manager for FmHA's $1 billion sale of Community Program loans, the first of the Federal Government's loan sales. This financing actually encompassed two separate transactions -- the sale of the senior or "A" securities and the sale of the subordinated or "B" securities. Kidder, Peabody actively participated in the structuring and marketing of both financings.

The familiarity we gained through this involvement with Federal asset sales -- our knowledge of the inherent strengths and weaknesses of the various agencies' portfolios, our experience with the securitization techniques available to work with them, and our understanding of the institutional (e.g., Congressional, OMB, and Treasury) constraints affecting each sale -- will be extremely useful to VA. The experience we have gained with the data collection activities, due diligence problems, and legal issues which can arise in connection with Federal loan sales will also offer an important advantage to VA.

In terms of both quantity and quality, Kidder, Peabody has also been a major force in traditional public sector asset finance. Over the past several years, we have served a variety of state and local housing agencies as managing underwriter, ranking as high as number two nationwide in housing issues. More recently, in response to the federal government's legislative changes, Kidder, Peabody began to introduce its public sector clients to the taxable mortgage securities market both on a domestic and an overseas basis. For example, the firm senior managed two transactions for the Alaska Housing Finance Corporation in the Eurobond market to take advantage of lower interest rates. The first $100 million financing was comprised of fixed rate serials and a term bond. The second transaction consisted of $125 million of floating rate notes for which the Corporation entered into an interest rate swap in order to limit its financial exposure. These transactions illustrate Kidder, Peabody's innovative approach to financings and its responsiveness to client needs.

In addition to serving the Federal Government as financial advisor, the Government Agency Finance Group has acted in that capacity for a variety of state and local housing finance agencies. In 1986, for example, Kidder, Peabody acted as financial advisor to 1) the Virginia Housing Development Authority in evaluating competitive bids for various multifamily and single family housing bonds; and 2) the New York City Housing Development Corporation in a $150 million loan asset sale.

B. Fixed Income

Kidder, Peabody's Fixed Income Group would work with the Asset Finance Department to advise VA on the marketing and pricing of its financings. The Fixed Income Group has an excellent record in the management of both public and private debt offerings. With over 100 fixed income traders backed by 250 researchers, sales people and other professionals, the firm's domestic trading alone is in excess of $10 billion daily. Kidder, Peabody's fixed income sales specialists actively trade in the full range of debt securities, including corporate bonds, U.S. Treasury and Agency obligations, preferred stocks, mortgage backed securities and private placements. It is also a major presence in the worldwide market for such instruments, with respected market making operations in both Europe and Japan. The Group has a unique ability to tap large institutional accounts as well as a broad and highly diversified range of intermediate and smaller-sized buyers. It has direct access to the extensive universe of Japanese investors, and an excellent reputation with both corporate issuers and fixed income buyers. Its sales and trading efforts are supported by interest rate swap and hedging capabilities and by a full complement of research staff who provide in-depth money market and capital market reports as well as other types of industry reviews.

Further evidence of Kidder, Peabody's underwriting and trading strength is provided by the widely recognized Greenwich Research Associates' survey of large institutions, which in 1985 ranked Kidder, Peabody ranked fifth in terms of penetration in new corporate bond issues and sixth in secondary trading capabilities. In 1986, Kidder, Peabody managed 132 domestic, non-convertible issues, 59 of which were on a lead or sole-managed basis, with total managed volume equalling $20.2 billion. This volume was more than triple that of 1985.

The firm's activity in government and government-related securities is also impressive. We estimate that during 1986 our average overnight inventory of securities totalled $1.7 billion, including $1 billion of government securities and agency debt (FNMA, FHLB, etc.) and $700 million of full faith and credit mortgage-backed securities. Another measure of Kidder, Peabody's success is that the Fixed Income Group's government and agency market section experienced record volume, revenues, and profits in 1986.

The Fixed Income Group played an important role in both FmHA's Community Program and Rural Housing loan sales. As co-manager of the Community Program financing, it was responsible for placing $100 million of the senior securities and $5 million of the subordinated securities. For the Rural Housing transaction, its representatives helped negotiate the final structure and the underwriters fee. They also oversaw each step of the transaction's marketing and pricing, meeting daily with FmHA's underwriters to ensure that the securities were being priced at the best possible spread to Treasury obligations. As a result of these negotiations, the spread for several of the Rural Housing Trust's classes was reduced, thus producing additional proceeds for FmHA. The involvement of this Group would offer similar benefits to VA.

C. Examples of Kidder, Peabody's Experience

The following five examples illustrate Kidder, Peabody's experience both in acting as financial advisor and in marketing and selling mortgage backed securities.

1. **Client:** **U.S. Department of Agriculture**
Farmers Home Administration (FmHA)
14th & Independence Avenue, S.W.
Washington, D.C. 20250

Contact: **Eric Thor, Associate Administrator**
(202) 447-5614

In 1987 Kidder, Peabody acted as Financial Advisor to FmHA for the sale of approximately $3 billion face amount of Section 502 single family rural housing loans. Kidder, Peabody worked with FmHA to 1) analyze and stratify its $22 billion loan portfolio; 2) develop criteria for loan selection; 3) develop effective packaging and marketing strategies; 4) select an underwriting team; and 5) design innovative and effective financing and loan servicing structures. The firm also oversaw the marketing and pricing of the transaction and provided a post-sale analysis of the financing to FmHA. The sale was completed within FmHA's required ten month timeframe and exceeded its $1.715 billion revenue target by $31 million.

2. **Client:** **U.S. Department of Agriculture**
Farmers Home Administration (FmHA)
14th & Independence Avenue, S.W.
Washington, D.C. 20250

Contact: **Eric Thor, Associate Administrator**
(202) 447-5614

In 1987 Kidder, Peabody was selected as co-manager of FmHA's $1 billion Community Program sale. As part of FmHA's financing team, the firm participated in the structuring and marketing of the transaction. We also consulted with FmHA on an ongoing basis regarding a variety of public policy issues arising from the sale. Finally, Kidder, Peabody successfully placed over $100 million of the transaction's senior securities and $5 million of its subordinated securities.

3. **Client:** **Home Owners Federal Savings & Loan Association**
21 Milk Street
Boston, Massachusetts 02109

Contact: **Richard Payne, Senior Vice President**
(617) 270-7334

In late 1986 Kidder, Peabody privately placed a $48 million senior/subordinated pass-through security for Home Owners Federal Savings and Loan. The security was one of the first of its kind, and the transaction allowed Home Owners to liquidate an otherwise illiquid portfolio. The assets securitized were single family mortgage loans secured by first liens and had principal balances ranging from $125,000 to $500,000. These loans were "nonconforming", and ineligible for securitization by either FNMA or FHLMC. Kidder, Peabody worked with Home Owners to 1) stratify the portfolio and select the appropriate sales structure; 2) select legal counsel and oversee the preparation of legal documents; 3) conduct rating agency review meetings; and 4) distribute the securities. A "AA" rating was obtained and the offering was sold quickly and successfully.

4. **Client:** **Mortgage Bankers Financial Corporation**
712 Rugby Street
Charlottesville, Virginia 22903

Contact: **Michael J. BeVier, President**
(804) 296-1314

Beginning in mid-1984, Kidder, Peabody worked with Michael BeVier, an independent entrepreneur with years of experience in the secondary mortgage marketplace, in establishing the Mortgage Bankers Financial Corporation (MBFC), a CMO conduit for the secondary mortgage market. Members of Kidder, Peabody's Asset Finance Department were integrally involved in the establishment of the issuer, the solicitation of clients, the structuring of offerings, and the marketing of the product. To date, MBFC has issued well over $1 billion in CMOs in several offerings and has become an established force in the marketplace. Participants in the MBFC program have included builders seeking to finance their mortgages, mortgage bankers, and savings and loans seeking to liquidate portfolios of below market rate securities.

5. **Client:** **New Jersey Housing and Mortgage Finance Agency**
3615 Quakerbridge Road
Trenton, New Jersey 08625

Contact: **Jim Logue, Executive Director**
(609) 890-8900

Since 1985, Kidder, Peabody has served as senior managing underwriter for the New Jersey Housing and Mortgage Finance Agency, one of the nation's most active housing finance agencies. In late 1985, Kidder, Peabody successfully accomplished a $285 million single family housing transaction that was the largest single financing ever undertaken by the Agency. That transaction contained several innovations that have since become standard operating procedure for state and local housing finance agencies throughout the nation. These innovations significantly improved the marketability of the transaction.

III. Offeror's Organizational Capabilities

As described earlier, Kidder, Peabody's Asset Finance Department has played a major role in many aspects of the Federal Government's loan asset sales. As a result, the firm's personnel are experienced in virtually all aspects of the work which will be required of VA's Financial Advisor. For example, the professionals who would be assigned to the project are already familiar with many of the data collection activities, the securitization techniques, and the legal issues which can be expected to arise in connection with VA's sales effort. This experience, which is reflected in the resumes provided below, offers an important advantage to VA. It is further enhanced by the fact that the firm has devoted considerable effort to analyzing VA's vendee loan program and portfolio since January 1987.

An additional advantage is found in the Asset Finance Department's wide range of expertise, which encompasses the securitization of many different types of mortgages and receivables, mortgage banking, feasibility consulting, government agency administration, securities law, and cash flow analysis. Department members are familiar not only with a very large array of financing needs and techniques, but also with the workings of all levels of government. In addition to the individuals identified below, a wide variety of other professionals within the Asset Finance Department would be available to work with VA as needed.

Finally, Kidder,Peabody can also offer VA essential ADP and legal expertise. As described earlier, the Asset Finance Department's computer capabilities are demonstrated by the leading role it has attained in the growing mortgage backed securities market. We have already worked extensively with VA's loan tape, are thoroughly familiar with its format, and are ready to proceed. Equally important, the participation of Brownstein Zeidman and Schomer, the law firm with which Kidder, Peabody proposes to work, ensures that VA would have access to legal counsel experienced in all facets of both federal loan sales and mortgage backed securities. Each of these aspects of Kidder, Peabody organizational capabilities is discussed further below.

A. Personnel Resources

Team Coordinator

MARVIN MARKUS is a Vice President and Shareholder of Kidder, Peabody and Managing Officer of its Government Agency Finance Group. He is responsible for all of Kidder, Peabody's efforts regarding the sale of the Federal Government's loan assets and, in particular, directed all aspects of the firm's work with FmHA on the sale of its Rural Housing and Community Program loan assets. Prior to joining Kidder, Peabody, Mr. Markus was a Limited Partner and Managing Officer of the Housing Finance Group of Bear, Stearns & Co. He has served as project manager or financial advisor for over $6 billion in mortgage revenue financings and is currently responsible for the New Jersey Housing and Mortgage Finance Agency, New York Housing Finance Agency and the Maine State Housing Authority. Prior to joining the securities industry, Mr. Markus was Deputy Commissioner for Policy and Governmental Liason of the New York City Department of Housing Preservation and Development. In that capacity, he had principal responsibility for the legislative and policy initiatives undertaken by the department on the local, state and federal levels of government. Mr. Markus continued to handle certain public sector responsibilities as Mayor Koch's appointee to the post of Chairman of the New York City Rent Guidelines Board from November 1979 through November 1984. Mr. Markus has served as an adjunct professor of finance at several universities including the City University of New York, New York University and the New School for Social Research. Mr. Markus is a graduate of Brooklyn college and has received a Masters of Urban Planning degree from New York University.

Mr. Markus would oversee all of the firm's work with VA. Approximately 50% of his time would be spent on this project.

Asset Finance Professionals

JOHN M. TILLAPAUGH is a Vice President in the Government Agency Finance Group with extensive experience in the development of taxable and tax exempt single family and multifamily programs for state and local municipal agencies. He has acted as the senior banker for more than $600 million in tax exempt multifamily bond issues for the Cities of Los Angeles, San Diego, Tucson and Long Beach and over $2 billion in single family financings for the States of Washington, California and Texas and the Department of Veterans Affairs of the State of California. Mr. Tillapaugh has also completed six transactions for state issuers in conjunction with the U.S. Small Business Administration loan guaranteed program. Mr. Tillapaugh is a graduate of Lehigh University and has been with Kidder, Peabody for ten years.

Mr. Tillapaugh would be responsible for analyzing VA's vendee loan program and portfolio and would participate in developing appropriate financial structures. Approximately 40% of his time would be spent on this project.

S. STEVENS SPENCER is a Vice President in the Mortgage Finance Group of the Asset Finance Department. He is responsible for various mortgage collateral structurings, mortgage industry business development and securitization of other assets. He also worked on FmHA's Rural Housing sale, particularly the servicing related aspects of the transaction. Prior to joining Kidder, Peabody, Mr. Spencer was Assistant Vice President of Murray Mortgage Company and Secondary Marketing Officer of Murray Savings Association in Dallas. He was in charge of securities origination and trading, hedging and CMO participation. He holds a bachelor's degree from the University of Arkansas and a Masters of Business Administration from Southern Methodist University.

Mr. Spencer would be responsible for exploring all servicing issues connected with the sale of VA's loans. Approximately 30% of his time would be spent on this project.

SANDRA L. FOIST is a Vice President in the Asset Finance Department. Since joining the firm in mid-1986 she has worked primarily on the securitization of auto loans and other receivables. Previous to joining Kidder, Peabody, Ms. Foist spent twelve years at Citicorp, most recently with Citicorp Investment Bank, where she was responsible for developing, structuring, and marketing asset-backed transactions. Ms. Foist graduated with honors from Purdue University where she received a B.S. in Economics, and has completed the course work towards a Masters in Economics of Development at New York University.

Ms. Foist would oversee all matters connected with due diligence on VA's loans. Approximately 30% of her time would be spent on this project.

HARRIET C. FRIED is an Assistant Vice President in the Government Agency Finance Group of the Asset Finance Department. She is currently participating in all aspects of Kidder, Peabody's work on federal loan asset sales, including FmHA's rural housing sale. Ms. Fried joined the firm in 1985 after six years of experience in structuring and selling limited partnership equity syndications for Oppenheimer Properties, Inc. As Vice President of that firm, Ms. Fried was involved with both existing and newly constructed real estate developments throughout the United States. She previously worked for the State and the City of New York, primarily in the field of housing policy and legislation, for several years. A graduate with highest honors from the University of California, Santa Cruz, Ms. Fried also received an M.A. with honors from the New School for Social Research and an M.B.A. from Fordham University. She has served as an adjunct professor in housing policy and finance at the City University of New York and the New School for Social Research.

Ms. Fried would work with Mr. Markus in coordinating all aspects of the VA loan sale. Approximately 60% of her time would be spent on this project.

STEVEN J. PLUST is an Assistant Vice President in the Government Agency Finance Group of the Asset Finance Department. Since joining Kidder, Peabody, Mr. Plust has worked on taxable mortgage finance projects including thrift institution portfolio restructuring, builder bonds, whole loan securitization, and arbitrage financings. He has also worked on several receivable-backed securities projects and on commercial mortgage securitization. His principal responsibilities involve portfolio stratification and cash-flow modeling. Mr. Plust was in charge of all computer and cash flow related analyses for the FmHA Rural Housing Loan Asset Sale Project. Prior to joining Kidder, Peabody in 1984, he was a financial analyst with McGraw-Hill. A graduate of Rensselaer Polytechnic Institute, Mr. Plust received his M.B.A. from Columbia University in 1981.

Mr. Plust would oversee all quantitative analysis undertaken for VA, including the analysis of its computer tapes and the testing of various financial structures. Approximately 60% of his time would be spent on this project.

RICHARD McNEIL is an Assistant Vice President in the Mortgage Finance Group of the Asset Finance Department. Since joining Kidder, Peabody in 1985, he provided the quantitive analysis for a wide variety of municipal transactions, including financings for the New Jersey Housing Mortgage Finance Agency and the Virginia Housing Development Authority. Mr. McNeil has also been involved extensively in structuring and pricing collateralized mortgage obligations and in the development of new taxable products. Mr. McNeil holds an A.B. degree in Economics from Princeton University, from which he graduated in 1984.

Mr. McNeil would work with Mr. Plust on providing the quantitative analysis for the VA sale. Approximately 40% of his time would be spent on this project.

Fixed Income Professionals

JAMES A. MULLIN is a Managing Director of Kidder, Peabody in the Fixed Income Group. Mr. Mullin is responsible for the Capital Markets Area of Kidder, Peabody which includes all fixed income underwritings as well as the pricing and distribution of all new issue commitments. He had primary responsibility for overseeing the marketing and pricing of FmHA's Rural Housing Trust in September 1987.

Mr. Mullin joined Kidder, Peabody in 1974 when the firm acquired Clark Dodge & Co. He has held various management positions in the brokerage and fixed income areas for both sales and trading since that time. Mr. Mullin graduated from Villanova University in 1968 and received an M.B.A. from the New York University Graduate School of Business Administration in 1969.

Mr. Mullin would be available to consult with VA as needed on the syndication, marketing, and pricing of VA's transactions.

STEVEN P. BAUM is a Vice President in the Fixed Income Group. Since 1985 Mr. Baum has been the Head Trader responsible for mortgage whole loans, securitized receivables, commercial loans, and adjustable rate mortgages. Prior to joining Kidder, Peabody, Mr. Baum was a Vice President at Salomon Brothers Inc., where he traded over $15 billion of whole loans and participated in many thrift restructurings. Before entering the securities industry, Mr. Baum was a Systems Engineer at Bell Laboratories. He holds a B.A. in Mathematics and Philosophy from Syracuse University and a Ph.D. in Mathematics from Cornell University.

Mr. Baum would be available to consult with VA as needed on the marketing and pricing of VA's transactions.

B. Technical and ADP Capabilities

Kidder, Peabody has made a substantial and ongoing commitment to provide in-depth computer services to our clients. Our efforts in this area have been concentrated in two principal departments, the Quantitative Analysis Group and the Contract Finance Group. While the Contract Finance staff routinely reviews large portfolios of mortgages and other assets, the Quantitative Analysis staff segments their cash flow into optimal groups which maximize the return to the issuer. The firm's ability to analyze portfolios, simulate alternative sales structures, and select the most beneficial one will enable us to quickly develop a successful packaging strategy for VA's loans. The expertise of these two group, whose professionals will be available for VA's loan sale project, is described further below.

Quantitative Analysis Group -- This Group provides a wide variety of computer services and analytic support to the five groups within the Asset Finance Department which structure mortgage and other asset-backed transactions. With its full time computer staff of ten professionals, the Group can handle in-house virtually every financing technique available in the marketplace -- including zero coupon bonds, floating rate and inverse floating rate CMOs, option bonds, convertible bonds, "planned redemption obligatons", senior/subordinated pass-throughs, and "I/O -- P/O" bonds. Their capabilities target the three most important analytical aspects of preparing a bond issue:

- projecting and analyzing cash flows;
- structuring bond issues based on such cash flows; and
- mathematically verifying yields on bonds to ensure consistency with tax laws.

The Group's sophisticated computer programs enable us to structure bonds according to desired maturity, priority, and payment characteristics. At the same time, our optimization models enable us to identify desirable low-cost structures based on the market's current yield curve and spreads.

Contract Finance Group -- This Group includes over 20 professionals dedicated to mortgage portfolio analysis and underwriting. The Group routinely analyzes and stratifies mortgage portfolios to determine the marketability of the loans. It also performs all necessary due diligence, reviews loan servicing procedures and sales documents, and coordinates the closing of transactions. All of these activities will be important steps in VA's loan sales.

C. Legal Capabilities

Kidder, Peabody would work closely on VA's loan sale with Brownstein Zeidman and Schomer, a Washington, D.C. based law firm with a national practice. Brownstein Zeidman and Schomer has extensive experience in real estate, securities, tax and government loan program matters, particularly as they relate to investments in federally-sponsored housing programs. The firm represents issuers and underwriters of taxable and tax exempt mortgage financings of all kinds, including issuers of mortgage backed securities, public limited partnerships, registered investment companies, trusts and other real estate related investment vehicles. The firm has extensive experience in dealing with the SEC, IRS and other government agencies in publicly and privately offered registered and unregistered securities. It has received numerous rulings and no-action and exemptive order relief from SEC and IRS to facilitate transactions.

Brownstein Zeidman and Schomer also has significant experience in federal loan sales since it served first as Kidder, Peabody's counsel on the rural housing loan sale and then as issuer's counsel for the Rural Housing Trust, 1987-1. In its role as issuer's counsel, Brown Zeidman and Schomer was primarily responsible for drafting the Trust's registration statement filed under the Securities Act of 1933, including the Prospectus and all amendments thereto. It also responded to all verbal and written comments from SEC staff and was responsible for complying with all SEC procedures, rules and regulations necessary in order for the registration statement to be declared effective. Brownstein Zeidman and Schomer retains continuing responsibility with respect to the Trust's compliance with the reporting requirements of the Securities Exchange Act of 1934, including registration thereunder and the preparation of annual reports on Form 10-K.

The firm also represents financial institutions, city and state governments, mortgage bankers and others in all aspects of real estate finance throughout the country. The firm's publications include the most extensive publication on mortgage backed securities issues, K. Lore, Mortgage-Backed Securities-Developments and Trends in the Secondary Mortgage Market (Clark Boardman Company Ltd. 1986-87 ed.). Examples of transactions for which Brown Zeidman and Schomer was responsible for the SEC filings are included in Appendix D.

The experience of the two principal partners of Brownstein Zeidman and Schomer who would advise Kidder, Peabody and VA is described below.

PHILIP N. BROWNSTEIN is a senior partner in Brownstein Zeidman and Schomer, specializing in real estate and finance. Before entering private practice in 1969, Mr. Brownstein served for over 30 years in a wide variety of positions with the Federal Government.

Mr. Brownstein began his government career with the Federal Housing Administration. Following service in World War II, he joined the Veterans Administration, beginning a 17-year period of service in that agency, where he was named Director of the Loan Guaranty Service in 1958. In 1961 Mr. Brownstein became Chief Benefits Director of the VA. He received the VA's highest award, the Exceptional Service Award, in 1960.

In 1963 he was named Federal Housing Commissioner by President Kennedy. After the Department of Housing and Urban Development came into being, Mr. Brownstein was designated by President Johnson to be the Assistant Secretary for Mortgage Credit, while still retaining the title of Federal Housing Commissioner. In the Department he also had administrative responsibility for the Government National Mortgage Association and prior to its becoming a private corporation, had similar responsibilities with the Federal National Mortgage Association. He also served as a Director of the Federal National Mortgage Association from 1963 to 1972.

In addition to receiving the VA's Exceptional Service Award, Mr. Brownstein received the public service award of the U.S. Civil Service League and was nominated for the Rockefeller Public Service Award by both VA and the Department of Housing and Urban Development. He was appointed by President Nixon as a member of a task force on low income housing and by Secretary Harris to a Committee on the role of FHA. He is a Director and former Vice Chairman of the National Housing Conference, and was Director of the National Commission Against Discrimination in Housing and a Director of the National Counsel on the Aging Housing Corporation. He continues to write and speak on the subject of housing and is often consulted and asked to testify on legislative proposals.

KENNETH G. LORE is a partner in the Washington, D.C. law firm of Brownstein Zeidman and Schomer, where he has specialized in real estate finance, mortgage backed securities, and the development of multifamily residential and hospital properties throughout the country. He represents a broad range of clients, including mortgage bankers and other construction and permanent lenders, developers and contractors, state and local housing finance agencies and other financial institutions. In addition, he represents bond underwriters and mortgage-backed security issuers in connection with the issuance of tax exempt and taxable bonds and mortgage-backed securities.

Before entering private practice, Mr. Lore was with HUD's Office of General Counsel, dealing with FHA multifamily housing programs, including nursing homes and hospitals, involving real estate financing in addition to general real estate, finance and housing law. While at HUD, Mr. Lore was the General Counsel's representative on a special task force established to deal with troubled multifamily insured projects.

Mr. Lore is the author of Mortgage-Backed Securities: Developments and Trends in the Secondary Mortgage Market, published by Clark Boardman Co., Ltd., in August 1985 and updated annually thereafter. He has written extensively on aspects of real estate law; his articles have been published in the record of Congressional hearings, Legal Times, the New York Journal, American University Law Review and The Mortgage Banker. Mr. Lore is a frequent lecturer on aspects of real estate finance.

Mr. Lore received his Bachelor of Arts and Juris Doctor degrees from the American University, Washington, D.C., and was an associate editor and symposium editor of the Law Review. He is a member of the bars of the District of Columbia, the State of Maryland, the State of New York, and the United States Supreme Court.

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12. Key Statistics by Year of Origin - Delinquent Loans

13. Payment Status Distribution by Original Loan/Purchase Price Ratio

14. Payment Status Distribution by Current Loan/Purchase Price Ratio

15. Distribution of Payment Status by State

16. Distribution by County

Veterans Administration Vendee Loan Portfolio
Total Portfolio
Interest Rate / Remaining Term Distribution

Interest Rate	0 - 120 Months Principal Balance	0 - 120 Months No. of Loans	0 - 120 Months WAM	121-216 Months Principal Balance	121-216 Months No. of Loans	121-216 Months WAM	217-288 Months Principal Balance	217-288 Months No. of Loans	217-288 Months WAM	289 + Months Principal Balance	289 + Months No. of Loans	289 + Months WAM	Total Principal Balance	Total No. of Loans	Total WAM
3.000%	$-	-	-	$41,485	7	169	$234,862	45	223	$-	-	-	$278,327	52	215
3.500	-	-	-	-	-	-	-	-	-	42,454	1	360	42,454	1	360
4.000	7,429	1	96	56,090	10	187	31,550	6	251	5,629	1	422	100,898	18	214
4.500	3,571	1	100	307,748	45	192	-	-	-	-	-	-	311,318	46	191
4.750	5,934	4	20	-	-	-	-	-	-	-	-	-	5,934	4	20
5.000	84,083	82	23	10,334	1	186	-	-	-	37,195	1	345	131,612	84	127
5.250	2,080,300	568	84	2,657,303	387	156	-	-	-	13,180	2	331	4,750,873	977	125
5.500	3,811,780	1,101	81	169,550	24	164	927	1	223	14,574	3	325	3,996,832	1,129	85
5.750	907,157	222	82	89,316	12	167	-	-	-	-	-	-	996,471	234	90
6.000	1,993,859	362	103	1,577,748	221	146	26,532	3	246	17,830	2	427	3,615,770	606	124
6.250	278,186	42	107	361,310	46	129	-	-	-	-	-	-	659,476	89	120
6.500	141,974	26	107	206,392	32	128	-	-	-	5,871	1	423	356,236	59	124
6.750	183,721	59	71	2,965,947	369	139	-	-	-	5,468	1	351	3,155,136	429	135
7.000	177,268	37	78	505,558	63	155	29,427	3	216	46,763	2	338	759,033	106	160
7.250	26,487	6	103	122,374	16	124	-	-	-	-	-	-	147,861	21	120
7.500	619,074	107	96	9,807,268	919	171	159,179	16	234	92,003	5	362	10,677,521	1,047	169
7.750	-	-	-	330,054	31	175	-	-	-	28,327	1	338	358,381	32	188
8.000	179,410	41	76	6,011,258	807	179	98,584	6	247	380,668	10	329	6,667,920	566	186
8.250	37,274	11	66	3,603,025	248	200	27,623	1	244	12,015	1	426	3,679,937	261	200
8.500	1,540,540	223	74	8,365,223	557	189	11,732,452	550	242	81,036,727	1,907	364	103,694,943	3,237	331
8.750	45,423	9	73	2,404,603	164	203	25,982	1	264	108,933	5	334	2,674,941	169	211
9.000	1,177,606	178	68	4,544,192	249	184	13,398,481	674	236	93,095,028	2,301	359	111,215,307	3,302	334
9.250	-	-	-	21,895	1	201	-	-	-	17,832	1	423	39,728	2	301
9.500	2,321,209	249	69	10,822,665	563	178	24,209,890	963	261	125,720,225	2,777	365	163,074,009	4,052	325
9.750	-	-	-	-	-	-	31,176	1	268	-	-	-	31,176	1	268
10.000	674,890	66	103	3,974,329	186	169	879,066	43	249	90,481,884	2,082	353	96,010,170	2,377	343
10.500	144,122	24	84	1,044,501	40	163	1,221,943	46	263	8,720,157	213	335	11,130,723	323	308
11.000	101,485	15	86	1,052,026	50	161	216,769	11	242	16,335,123	309	338	17,706,406	475	325
11.500	887,509	96	86	5,347,132	220	158	3,849,433	134	266	43,527,416	1,051	332	53,311,510	1,501	306
11.750	-	-	-	-	-	-	34,936	1	274	-	-	-	34,936	1	274
12.000	571,737	81	78	1,527,184	96	150	6,184,829	226	276	18,505,308	486	312	26,850,029	889	290

Veterans Administration Vendee Loan Portfolio
Total Portfolio
Interest Rate / Remaining Term Distribution

	0 - 120 Months			121-216 Months			217-288 Months			289 + Months			Total		
Interest Rate	Principal Balance	No. of Loans	WAM	Principal Balance	No. of Loans	WAM	Principal Balance	No. of Loans	WAM	Principal Balance	No. of Loans	WAM	Principal Balance	No. of Loans	WAM
12.250	-	-	-	-	-	-	-	-	-	87,049	1	338	87,049	1	338
12.500	1,041,910	123	83	5,439,049	283	156	803,931	36	264	57,447,503	1,380	326	64,732,393	1,822	307
13.000	424,928	51	84	1,893,318	102	158	3,782,372	136	278	17,413,430	445	325	23,514,048	734	300
13.500	582,909	63	78	1,645,445	97	161	5,821,926	212	279	23,627,829	611	324	31,678,110	983	303
14.000	99,759	14	61	321,335	25	168	2,404,128	91	283	4,588,286	115	319	7,413,508	245	298
14.500	44,126	7	71	6,584	1	168	1,521,628	55	285	105,189	4	289	1,677,527	67	279
15.000	52,990	5	62	66,953	3	122	-	-	-	793,007	30	311	912,950	38	283
15.500	974,097	110	93	577,084	48	171	627,616	27	261	9,355,501	331	298	11,534,298	516	272
16.500	86,056	12	83	28,250	4	172	59,735	3	232	577,164	19	292	751,204	38	259
Total	$21,307,588	4,037	84	$77,946,800	5,616	172	$77,082,780	3,293	258	$591,435,589	14,089	346	$767,772,753	27,035	313

Veterans Administration Vendee Loan Portfolio
Non-Defaulted/Delinquent Loans
Interest Rate / Remaining Term Distribution

	0 - 120 Months			121-216 Months			217-288 Months			289 + Months			Total		
	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM
3.000%	$-	-	-	$35,077	6	171	$137,986	27	222	$-	-	-	$173,063	33	212
3.500	-	-	-	-	-	-	-	-	-	42,434	1	360	42,434	1	360
4.000	-	-	-	37,446	7	184	10,110	2	250	5,629	1	422	53,185	10	222
4.500	3,571	1	100	205,186	30	191	-	-	-	-	-	-	208,757	31	189
4.750	3,893	3	23	-	-	-	-	-	-	-	-	-	3,893	3	23
5.000	60,061	62	28	10,334	1	186	-	-	-	-	-	-	70,395	63	49
5.250	842,878	269	84	2,279,608	331	156	-	-	-	-	-	-	3,122,486	600	137
5.500	1,678,655	565	81	136,560	19	153	-	-	-	2,173	1	332	1,817,387	585	86
5.750	297,981	84	80	74,817	10	167	-	-	-	-	-	-	372,798	94	97
6.000	791,411	186	104	763,488	108	152	26,532	3	246	9,012	1	427	1,590,443	298	131
6.250	251,783	37	108	335,408	40	128	-	-	-	-	-	-	587,191	77	120
6.500	121,192	22	107	152,813	24	126	-	-	-	5,871	1	423	279,876	47	125
6.750	109,555	38	71	1,296,369	156	142	-	-	-	-	-	-	1,405,923	194	136
7.000	113,523	26	76	226,149	28	165	17,304	2	217	25,304	1	338	382,281	57	152
7.250	25,487	6	103	113,255	14	124	-	-	-	-	-	-	138,742	20	120
7.500	280,672	45	97	3,735,853	340	173	106,004	10	230	67,653	3	307	4,190,183	398	172
7.750	-	-	-	276,683	25	176	-	-	-	-	-	-	276,683	25	176
8.000	67,333	15	76	2,200,831	184	179	60,628	6	248	203,137	6	328	2,531,929	211	190
8.250	14,881	8	48	1,300,843	94	200	-	-	-	-	-	-	1,315,724	102	196
8.500	1,146,552	155	71	2,401,952	134	181	951,793	47	243	58,229,402	1,234	360	62,818,696	1,570	346
8.750	21,292	4	60	879,584	57	200	25,982	1	264	-	-	-	926,858	62	199
9.000	905,440	119	86	2,744,175	128	177	1,174,557	56	238	64,405,332	1,538	359	69,129,504	1,841	347
9.500	1,982,781	198	67	7,332,112	339	173	3,083,480	93	259	88,531,271	1,928	358	99,929,645	2,558	336
9.750	-	-	-	-	-	-	31,176	1	268	-	-	-	31,176	1	268
10.000	427,971	45	103	3,217,311	150	169	273,184	16	248	56,838,307	1,295	358	60,756,773	1,506	346
10.500	109,200	18	85	859,648	27	160	337,178	12	263	1,816,732	41	341	3,122,758	98	274
11.000	86,729	9	87	760,413	33	162	74,887	3	240	4,928,043	114	342	5,850/072	159	314
11.500	620,278	74	87	3,387,771	134	154	474,245	23	264	6,046,263	138	334	10,528;557	369	258
11.750	-	-	-	-	-	-	34,936	1	274	-	-	-	34,936	1	274
12.000	393,681	59	76	777,179	47	138	707,987	27	275	1,587,612	39	312	3,466,459	172	239
12.500	-	-	-	-	-	-	-	-	-	87,049	1	338	87,049	1	338

Veterans Administration Vendee Loan Portfolio
Non-Defaulted/Delinquent Loans
Interest Rate / Remaining Term Distribution

	0 - 120 Months			121-216 Months			217-288 Months			289 + Months			Total		
	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM	Principal Balance	Number of Loans	WAM
12.500	744,846	89	84	3,503,039	177	149	91,671	4	264	6,819,052	149	327	11,158,608	419	254
13.000	293,051	37	84	964,863	53	152	928,061	37	278	3,617,440	101	325	5,803,415	228	277
13.500	462,009	43	77	995,112	56	157	1,262,992	48	279	8,370,983	210	324	11,091,097	357	294
14.000	68,797	10	81	112,110	9	151	621,276	25	284	1,635,272	39	321	2,437,454	83	297
14.500	32,865	4	79	-	-	-	252,044	10	287	67,797	3	289	352,707	17	288
15.000	46,601	4	62	21,331	2	122	-	-	-	266,910	9	307	336,842	15	260
15.500	865,434	66	89	224,035	20	165	103,797	5	257	2,125,748	81	298	3,019,014	172	248
16.500	53,364	7	97	5,085	1	172	10,053	1	231	189,388	6	292	257,888	15	247
Total	$12,504,769	2,276	82	$41,456,440	2,786	166	$9,797,866	460	262	$305,925,833	6,941	355	$369,682,907	12,483	322

Veterans Administration Vendee Loan Portfolio
Key Statistics by Current Loan Balance

Balance Range	Principal Balance	Number of Loans	Average Balance	Interest Rate	WAM (Months)	Age (Months)	Pct.	Cumul. Pct.
0 - 9,999	$35,488,080	6,454	$5,499	7.73%	139	180	4.62%	4.62%
10,000 - 19,999	80,555,172	5,389	14,948	9.84	244	74	10.49	15.11
20,000 - 29,999	115,543,550	4,624	24,988	10.45	301	40	15.05	30.16
30,000 - 39,999	130,164,738	3,733	34,869	10.51	323	26	16.95	47.10
40,000 - 49,999	116,873,909	2,608	44,814	10.38	337	17	15.22	62.32
50,000 - 59,999	95,378,935	1,740	54,815	10.27	340	15	12.42	74.74
60,000 - 69,999	76,222,487	1,176	64,815	10.24	344	14	9.93	84.67
70,000 - 79,999	46,095,965	617	74,710	10.18	344	14	6.00	90.67
80,000 - 89,999	25,239,917	298	84,698	10.31	342	14	3.29	93.96
90,000 - 99,999	15,458,578	164	94,260	9.98	346	10	2.01	95.97
100,000 - 109,999	10,684,857	102	104,754	9.94	342	11	1.39	97.36
110,000 - 119,999	5,857,984	51	114,862	9.92	347	9	0.76	98.12
120,000 - 129,999	3,481,601	28	124,343	9.54	346	7	0.45	98.58
130,000 - 139,999	3,515,411	26	135,208	10.83	340	20	0.46	99.04
140,000 - 149,999	4,034,717	28	144,097	10.45	342	18	0.53	99.56
150,000 - 159,999	1,402,713	9	155,857	9.89	343	17	0.18	99.74
160,000 - 169,999	983,003	6	163,834	10.08	350	10	0.13	99.87
180,000 - 189,999	185,546	1	185,546	9.00	358	2	0.02	99.90
800,000 - 809,999	802,606	1	802,606	12.50	321	39	0.10	100.00
Total	$767,969,769	27,055	$28,386	10.17%	312	35	100.00%	

Veterans Administration Vendee Loan Portfolio
Distribution by Paid Through Date

Paid Through Date	Unpaid Balance	Number of Loans	%	Cumul. %
Pre-1985	$1,577,511	67	0.21%	0.21%
1 / 85	112,353	3	0.01	0.22
2 / 85	49,641	4	0.01	0.23
3 / 85	68,606	7	0.01	0.24
4 / 85	480,386	14	0.06	0.30
5 / 85	217,362	12	0.03	0.33
6 / 85	216,131	9	0.03	0.36
7 / 85	398,327	15	0.05	0.41
8 / 85	674,735	23	0.09	0.50
9 / 85	583,949	19	0.08	0.57
10 / 85	530,542	29	0.07	0.64
11 / 85	665,904	25	0.09	0.73
12 / 85	924,109	28	0.12	0.85
1 / 86	1,453,585	42	0.19	1.04
2 / 86	739,180	26	0.10	1.14
3 / 86	1,429,726	43	0.19	1.32
4 / 86	1,810,358	56	0.24	1.56
5 / 86	2,270,544	73	0.30	1.85
6 / 86	2,908,834	89	0.38	2.23
7 / 86	3,848,622	116	0.50	2.73
8 / 86	4,816,833	142	0.63	3.36
9 / 86	6,295,127	192	0.82	4.18
10 / 86	7,478,001	217	0.97	5.15
11 / 86	10,245,300	288	1.33	6.49
12 / 86	11,025,623	336	1.44	7.92
1 / 87	14,024,066	412	1.83	9.75
2 / 87	16,044,578	512	2.09	11.84
3 / 87	21,975,737	672	2.86	14.70
4 / 87	23,718,993	860	3.09	17.79
5 / 87	30,383,661	1,139	3.96	21.75
6 / 87	46,098,360	1,696	6.00	27.75
7 / 87	74,456,908	2,827	9.70	37.44
8 / 87	184,420,839	6,791	24.01	61.46
9 / 87	276,023,537	9,331	35.94	97.40
10 / 87	14,996,340	637	1.95	99.35
11 / 87	2,337,566	113	0.30	99.66
12 / 87	751,106	55	0.10	99.75
1988 +	1,916,792	137	0.25	100.00
Total	$767,969,769	27,057	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by State
CURRENT LOANS

	Current Account	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total
Alabama	$5,973,684	348	9.32%	273	58	95.6%	1.64%
Alaska	1,114,737	14	9.28	356	2	96.8	0.31
Arizona	11,724,158	238	9.62	354	5	97.7	3.22
Arkansas	2,617,807	109	9.56	318	17	97.5	0.72
California	58,130,621	960	9.71	340	17	92.3	15.96
Colorado	14,121,610	320	9.41	350	10	96.1	3.88
Connecticut	114,708	7	8.54	227	129	97.1	0.03
Delaware	96,854	8	11.10	197	58	68.3	0.03
D.C.	1,666,929	31	10.41	343	15	98.0	0.46
Florida	16,873,338	422	9.78	331	12	96.8	4.63
Georgia	11,250,017	370	9.60	323	20	97.8	3.09
Hawaii	1,271,771	13	11.45	315	30	97.3	0.35
Idaho	2,061,519	71	9.62	314	18	93.0	0.57
Illinois	22,947,081	782	9.75	317	17	90.7	6.30
Indiana	4,331,997	254	9.51	323	32	94.2	1.19
Iowa	1,813,230	125	9.27	259	48	92.3	0.50
Kansas	4,003,681	257	9.49	301	30	97.2	1.10
Kentucky	2,098,451	117	9.37	298	40	97.5	0.58
Louisiana	4,687,507	388	7.76	258	119	98.8	1.29
Maine	501,903	29	11.20	221	63	94.9	0.14
Maryland	5,362,015	108	9.85	335	13	96.7	1.47
Massachusetts	220,717	24	9.45	184	137	88.0	0.06
Michigan	10,660,613	788	9.79	291	37	95.6	2.93
Minnesota	6,185,781	168	9.45	331	11	94.5	1.70
Mississippi	3,403,842	152	9.45	294	31	96.9	0.93
Missouri	1,776,869	210	8.77	231	84	93.8	0.49
Montana	1,098,691	38	9.68	300	10	94.2	0.30
Nebraska	1,272,052	60	9.27	283	44	94.8	0.35
Nevada	9,622,168	199	9.73	348	10	96.6	2.64
New Hampshire	84,565	9	8.27	206	176	95.8	0.02
New Jersey	8,113,630	364	10.92	280	52	89.8	2.23
New Mexico	1,095,094	44	8.92	334	27	98.2	0.30
New York	4,603,938	233	11.45	252	61	88.3	1.26
North Carolina	7,517,573	231	9.45	311	22	97.0	2.06
North Dakota	697,958	32	9.47	331	4	96.6	0.19

Veterans Administration Vendee Loan Portfolio
Key Statistics by State
CURRENT LOANS

	Current Account	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total
Ohio	16,010,203	843	10.11	277	31	93.3	4.39
Oklahoma	7,975,447	306	9.43	325	14	96.1	2.19
Oregon	1,899,603	42	9.21	357	3	99.6	0.52
Pennsylvania	5,893,155	333	10.26	261	24	90.1	1.62
Rhode Island	-	-	-	-	-	-	0.00
South Carolina	3,770,201	136	9.73	320	16	95.2	1.03
South Dakota	566,226	23	9.82	324	8	91.1	0.16
Tennessee	4,489,422	239	10.08	297	31	97.1	1.23
Texas	62,030,933	1,756	9.37	333	8	98.1	17.03
Utah	1,993,657	62	8.95	332	26	96.0	0.55
Vermont	16,301	1	9.00	190	110	97.0	0.00
Virginia	7,015,434	167	9.89	323	17	97.0	1.93
Washington	12,171,947	290	9.22	345	12	98.5	3.34
West Virginia	857,882	46	10.27	240	17	98.0	0.24
Wisconsin	5,048,039	207	9.48	307	26	95.3	1.39
Wyoming	2,021,616	66	9.14	354	6	97.8	0.55
Guam	255,708	5	11.78	315	45	95.5	0.07
Puerto Rico	3,007,906	135	11.27	243	75	85.8	0.83
Virgin Islands	165,537	5	11.73	259	96	90.3	0.05
Total	$364,306,325	12,185	9.66%	321	21	95.2%	100.00%

Veterans Administration Vendee Loan Portfolio
Key Statistics by State
DELINQUENT LOANS

	Current Account	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total
Alabama	$5,715,528	248	11.04%	288	60	96.5%	1.47%
Alaska	560,362	7	10.38	340	20	97.7	0.14
Arizona	9,035,690	219	10.71	323	37	97.5	2.32
Arkansas	3,423,502	139	10.48	292	55	96.9	0.88
California	36,323,319	827	10.55	310	48	95.0	9.32
Colorado	17,241,365	381	11.14	325	35	97.6	4.42
Connecticut	183,671	10	10.49	256	103	96.2	0.05
Delaware	553,332	25	12.05	284	70	96.0	0.14
D.C.	1,860,257	41	11.29	321	39	98.0	0.48
Florida	24,573,395	716	10.71	301	54	96.3	6.30
Georgia	16,227,839	595	10.74	283	73	96.1	4.16
Hawaii	417,869	5	10.19	321	45	96.9	0.11
Idaho	1,844,969	45	11.71	311	41	95.5	0.47
Illinois	43,133,734	1,346	10.41	327	27	93.5	11.06
Indiana	7,607,476	403	11.03	301	58	95.2	1.95
Iowa	1,770,369	78	10.67	306	37	95.4	0.45
Kansas	3,261,468	215	11.02	274	67	97.0	0.84
Kentucky	1,901,655	120	10.78	277	76	97.7	0.49
Louisiana	7,111,116	312	9.90	305	57	98.4	1.82
Maine	332,061	19	10.90	243	74	98.9	0.09
Maryland	6,979,533	155	10.95	313	45	96.1	1.79
Massachusetts	173,606	15	10.01	199	121	86.9	0.04
Michigan	14,690,612	1,026	10.29	283	62	96.8	3.77
Minnesota	3,825,624	99	11.39	315	37	95.6	0.98
Mississippi	3,936,461	191	10.44	271	83	97.7	1.01
Missouri	3,358,640	290	10.01	239	108	92.7	0.86
Montana	562,604	17	11.28	296	36	91.7	0.14
Nebraska	1,103,534	48	11.06	295	57	98.7	0.28
Nevada	4,448,864	96	10.21	335	25	97.0	1.14
New Hampshire	40,091	2	10.29	260	76	118.0	0.01
New Jersey	9,226,717	404	11.01	274	75	92.2	2.37
New Mexico	546,462	43	10.01	255	101	96.6	0.14
New York	9,100,736	419	11.17	261	85	91.0	2.33
North Carolina	6,701,096	288	10.48	278	75	98.0	1.72
North Dakota	105,572	3	9.01	314	9	90.4	0.03

Veterans Administration Vendee Loan Portfolio
Key Statistics by State
DELINQUENT LOANS

	Current Account	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total
Ohio	28,147,401	1,385	10.98	284	62	93.5	7.22
Oklahoma	6,938,825	292	10.75	303	46	96.8	1.78
Oregon	922,743	22	11.40	328	31	99.6	0.24
Pennsylvania	9,126,272	488	11.31	279	52	95.3	2.34
Rhode Island	18,670	1	9.00	172	128	93.9	0.00
South Carolina	2,479,345	89	10.96	291	62	96.9	0.64
South Dakota	270,883	10	11.32	310	25	99.1	0.07
Tennessee	5,538,604	254	10.87	281	73	96.5	1.42
Texas	54,103,514	1,790	10.23	308	46	97.7	13.88
Utah	2,185,583	62	10.66	314	46	94.8	0.56
Vermont	-	-	-	-	-	-	0.00
Virginia	5,267,466	132	11.22	309	44	97.2	1.35
Washington	12,633,718	297	11.06	324	36	97.1	3.24
West Virginia	1,168,428	52	11.57	275	41	96.5	0.30
Wisconsin	4,302,874	158	11.04	305	45	95.4	1.10
Wyoming	1,558,776	40	11.24	333	27	97.8	0.40
Guam	34,214	1	9.50	267	93	90.2	0.01
Puerto Rico	7,158,891	243	11.35	273	75	92.3	1.84
Virgin Islands	109,955	2	11.48	302	58	86.8	0.03
Total	$389,843,293	14,165	10.69%	302	51	95.74%	100.00%

Veterans Administration Vendee Loan Portfolio
Key Statistics by Original Balance / Purchase Price Ratio
CURRENT LOANS

Orig. Balance/ Purchase Price Range	Current Balance	Number of Loans	WAM (Months)	Age (Months)	% of Total	Cumul. %
0 - 9.99	$461,361	14	339	20	0.13%	0.13%
10 - 19.99	104,244	11	271	21	0.03	0.16
20 - 29.99	84,514	16	133	60	0.02	0.18
30 - 39.99	177,914	20	173	28	0.05	0.23
40 - 49.99	378,601	29	258	40	0.10	0.33
50 - 59.99	559,358	57	187	78	0.15	0.48
60 - 69.99	1,179,770	91	198	66	0.32	0.81
70 - 79.99	4,138,300	232	236	49	1.14	1.94
80 - 89.99	21,280,240	859	271	43	5.84	7.79
90 - 99.99	228,816,245	7,054	323	20	62.81	70.59
100 - 109.99	106,525,714	3,679	331	16	29.24	99.84
110 +	600,064	23	320	26	0.16	100.00
Total	$364,306,325	12,185	321	21	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by Original Balance / Purchase Price Ratio
DELINQUENT LOANS

Orig. Balance/ Purchase Price Range	Current Balance	Number of Loans	WAM (Months)	Age (Months)	% of Total	Cumul. %
0 - 9.99	$86,263	4	291	69	0.02%	0.02%
10 - 19.99	103,410	6	319	35	0.03	0.05
20 - 29.99	189,857	13	273	71	0.05	0.10
30 - 39.99	62,862	18	83	230	0.02	0.11
40 - 49.99	236,957	45	142	176	0.06	0.18
50 - 59.99	455,279	66	177	163	0.12	0.29
60 - 69.99	1,097,467	116	189	137	0.28	0.57
70 - 79.99	3,169,976	258	212	120	0.81	1.39
80 - 89.99	26,632,738	1,265	264	86	6.83	8.22
90 - 99.99	282,002,844	9,539	304	50	72.34	80.56
100 - 109.99	74,584,865	2,803	314	38	19.13	99.69
110 +	1,220,773	34	316	32	0.31	100.00
Total	$389,843,293	14,167	302	51	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by Loan Interest Rate
CURRENT LOANS

Interest Rate	Current Balance	Number of Loans	WAM (Months)	Age (Months)	Original LTV	% of Total	Cumul. %
3.00%	$173,063	33	212	198	99.7%	0.05%	0.05%
3.50	42,454	1	360	0	95.0	0.01	0.06
4.00	47,556	9	198	171	98.7	0.01	0.07
4.50	201,785	30	189	172	99.8	0.06	0.13
4.75	3,893	3	23	337	81.2	0.00	0.13
5.00	75,309	64	44	315	96.4	0.02	0.15
5.25	3,083,082	594	136	266	97.7	0.85	1.00
5.50	1,790,070	572	86	273	94.5	0.49	1.49
5.75	354,204	91	96	273	98.5	0.10	1.58
6.00	1,534,010	260	129	241	95.8	0.42	2.01
6.25	472,751	61	119	237	97.7	0.13	2.14
6.50	265,430	44	119	237	96.6	0.07	2.21
6.75	1,393,875	193	136	224	92.5	0.38	2.59
7.00	382,281	57	152	203	92.9	0.10	2.70
7.25	138,742	20	120	225	92.4	0.04	2.73
7.50	4,172,852	396	171	186	92.3	1.15	3.88
7.75	276,683	25	176	179	94.6	0.08	3.95
8.00	2,486,797	208	190	166	90.0	0.68	4.64
8.25	1,315,724	102	198	158	93.8	0.36	5.00
8.50	61,106,172	1,491	344	6	93.2	16.77	21.77
8.75	926,858	62	199	155	92.9	0.25	22.03
9.00	67,581,403	1,774	345	5	97.8	18.55	40.58
9.50	98,912,057	2,517	336	6	95.5	27.15	67.73
9.75	31,176	1	268	92	93.8	0.01	67.74
10.00	60,087,055	1,477	345	3	97.1	16.49	84.23
10.50	3,153,124	100	271	26	92.8	0.87	85.10
11.00	5,830,072	159	314	18	96.6	1.60	86.70
11.50	10,528,557	369	259	29	87.7	2.89	89.59
11.75	34,936	1	274	86	95.0	0.01	89.60
12.00	3,466,459	172	239	54	91.8	0.95	90.55
12.25	87,049	1	338	22	91.0	0.02	90.57
12.50	11,169,532	416	254	34	91.8	3.07	93.64
13.00	5,815,624	228	272	42	91.1	1.60	95.23
13.50	11,091,097	357	294	41	93.2	3.04	98.28
14.00	2,356,482	81	296	50	94.7	0.65	98.92
14.50	352,707	17	268	72	94.6	0.10	99.02
15.00	324,204	14	253	59	94.2	0.09	99.11
15.50	2,983,310	170	245	64	89.7	0.82	99.93
16.50	257,888	15	247	68	90.8	0.07	100.00
Total	$364,306,323	12,185	321	21	95.2%	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by Loan Interest Rate
DELINQUENT LOANS

Interest Rate	Current Balance	Number of Loans	WAM (Months)	Age (Months)	Original LTV	% of Total	Cumul. %
3.00%	$103,264	19	219	198	99.2%	0.03%	0.03%
4.00	47,513	8	204	173	98.5	0.01	0.04
4.50	102,561	15	193	167	100.0	0.03	0.06
4.75	2,040	1	14	346	97.9	0.00	0.07
5.00	61,217	21	217	141	80.4	0.02	0.08
5.25	1,612,262	374	103	268	92.8	0.41	0.49
5.50	2,136,267	535	84	274	91.5	0.55	1.04
5.75	607,710	136	86	274	98.3	0.16	1.20
6.00	1,923,141	327	117	240	94.7	0.49	1.69
6.25	48,415	8	110	237	98.2	0.01	1.70
6.50	76,361	12	123	234	93.3	0.02	1.72
6.75	1,749,212	235	135	221	92.7	0.45	2.17
7.00	376,752	48	148	207	89.4	0.10	2.27
7.25	9,119	1	127	221	94.9	0.00	2.27
7.50	6,438,450	644	167	189	90.8	1.65	3.92
7.75	81,698	7	227	133	89.8	0.02	3.94
8.00	4,091,128	352	183	173	92.1	1.05	4.99
8.25	2,352,198	158	200	158	94.6	0.60	5.60
8.50	33,647,725	1,374	287	69	92.8	8.63	14.23
8.75	1,748,083	107	217	141	93.7	0.45	14.68
9.00	41,668,433	1,439	312	44	96.4	10.69	25.36
9.25	21,895	1	201	25	133.5	0.01	25.37
9.50	62,999,019	1,987	307	46	95.5	16.16	41.53
10.00	35,173,604	868	338	15	98.3	9.02	50.55
10.50	8,007,965	225	320	33	94.9	2.05	52.61
11.00	11,818,953	314	329	25	97.8	3.03	55.64
11.50	42,773,245	1,131	318	31	96.6	10.97	66.61
12.00	23,366,555	715	297	56	94.8	5.99	72.60
12.50	53,113,310	1,391	318	34	96.8	13.62	86.23
13.00	17,679,608	502	307	42	96.6	4.54	90.76
13.50	20,478,697	622	308	45	96.0	5.25	96.02
14.00	4,784,422	157	296	56	95.9	1.23	97.24
14.50	1,324,820	50	282	72	94.5	0.34	97.58
15.00	524,477	20	284	59	96.9	0.13	97.72
15.50	8,399,859	338	279	65	95.4	2.15	99.87
16.50	493,316	23	265	68	96.6	0.13	100.00
Total	$389,843,293	14.165	302	51	95.8%	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by Year of Origin
CURRENT LOANS

Year of Origination	Current Balance	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total	Cumul. %
1956	$4,439	1	5.00%	(10)	370	93.3%	0.00%	0.00%
1958	21,374	30	5.04	11	344	95.2	0.01	0.01
1959	80,304	52	5.13	27	336	95.0	0.02	0.02
1960	52,749	34	5.54	36	324	97.2	0.01	0.04
1961	135,335	58	5.57	49	311	95.2	0.04	0.08
1962	182,523	69	5.54	59	299	94.3	0.04	0.12
1963	377,461	148	5.47	69	286	93.1	0.10	0.22
1964	939,146	273	5.38	103	273	94.5	0.26	0.48
1965	3,195,988	599	5.32	131	263	96.4	0.88	1.36
1966	1,201,147	207	5.90	122	252	96.3	0.33	1.69
1967	807,921	130	6.10	126	239	96.6	0.22	1.91
1968	2,009,815	293	6.77	127	227	93.9	0.55	2.46
1969	1,493,278	183	7.41	142	216	91.7	0.41	2.87
1970	414,342	54	8.80	180	202	92.8	0.11	2.99
1971	1,512,571	151	7.34	169	191	93.0	0.42	3.40
1972	1,756,888	165	7.58	175	179	89.0	0.48	3.88
1973	2,778,417	232	7.53	191	169	93.3	0.76	4.65
1974	2,526,702	191	8.52	197	157	93.4	0.69	5.34
1975	616,895	63	8.92	194	143	90.4	0.17	5.51
1976	870,984	60	8.91	198	131	92.0	0.24	5.75
1977	690,463	72	8.49	183	117	93.3	0.19	5.94
1978	1,704,561	133	9.11	219	107	90.0	0.47	6.40
1979	1,996,967	140	9.65	225	95	91.1	0.55	6.95
1980	2,411,747	145	12.41	241	83	89.3	0.66	7.61
1981	3,830,134	203	14.37	254	72	90.3	1.05	8.66
1982	4,707,427	205	13.82	249	57	92.2	1.29	9.96
1983	5,841,588	229	11.66	239	47	89.7	1.60	11.56
1984	20,560,255	672	13.03	284	35	92.9	5.64	17.20
1985	15,412,065	532	11.69	273	23	90.6	4.23	21.43
1986	48,500,414	1,356	9.79	305	11	94.8	13.31	34.75
1987	237,718,424	8,487	9.21	352	1	96.3	65.25	100.00
Total	$364,308,325	12,185	9.66%	321	21	95.16%	100.00%	

Veterans Administration Vendee Loan Portfolio
Key Statistics by Year of Origin
DELINQUENT LOANS

Year of Origination	Current Balance	Number of Loans	Interest Rate	WAM (Months)	Age (Months)	Original LTV	% of Total	Cumul. %
1958	$13,799	16	4.99%	13	347	87.5%	0.00%	0.00%
1959	27,846	16	5.24	26	334	80.9	0.01	0.01
1960	75,074	35	5.46	36	324	88.0	0.02	0.03
1961	173,091	66	5.62	46	311	94.3	0.04	0.07
1962	265,018	78	5.35	59	299	88.6	0.07	0.14
1963	567,359	156	5.49	69	287	92.4	0.15	0.29
1964	1,094,771	266	5.39	87	275	91.0	0.28	0.57
1965	1,825,440	372	5.42	104	262	95.2	0.47	1.04
1966	1,155,519	209	5.86	111	251	94.5	0.30	1.33
1967	712,554	113	6.02	121	238	95.7	0.18	1.52
1968	2,170,392	309	6.65	129	226	93.0	0.56	2.07
1969	2,241,461	270	7.51	140	215	90.6	0.57	2.65
1970	1,292,415	137	8.11	153	203	86.4	0.33	2.98
1971	2,569,692	263	7.54	166	191	90.8	0.66	3.64
1972	3,048,948	264	7.66	177	179	91.1	0.78	4.42
1973	4,447,150	368	7.92	191	167	92.4	1.14	5.56
1974	6,475,424	440	8.70	201	156	93.7	1.66	7.22
1975	6,057,443	397	8.73	212	143	92.6	1.55	8.78
1976	7,709,355	441	8.93	223	131	93.6	1.98	10.75
1977	4,516,219	233	8.50	235	116	93.5	1.16	11.91
1978	15,579,833	703	9.09	250	108	94.7	4.00	15.91
1979	16,069,074	656	9.57	260	96	94.6	4.12	20.03
1980	11,225,560	444	12.21	268	83	94.1	2.88	22.91
1981	11,796,334	459	14.32	276	72	95.0	3.03	25.94
1982	15,734,179	529	13.45	291	58	94.9	4.04	29.97
1983	37,479,065	1,019	11.53	306	47	95.3	9.61	39.59
1984	56,228,207	1,493	12.81	317	35	96.8	14.42	54.01
1985	58,397,145	1,499	11.77	327	23	97.1	14.98	68.99
1986	78,732,926	1,896	9.82	341	11	97.3	20.20	89.18
1987	42,161,978	1,018	8.86	354	3	96.4	10.82	100.00
Total	$389,843,293	14,165	10.69%	302	51	95.9%	100.00%	

Veterans Administration Vendee Loan Portfolio
Payment Status Distribution by Original Loan / Purchase Value

Original Loan/Purchase Range	Current Account	Reportable Default	Recently in Default	Not For Sale	Total Portfolio	Percent of Group: Current Account	Percent of Group: Report. Default	Percent of Group: Recently in Def.	Percent of Group: Not For Sale	Percent of Total Portfolio: All Loans	Percent of Total Portfolio: Report. Default	Percent of Total Portfolio: Recently in Def.	Percent of Total Portfolio: Not For Sale
0 - 9.99	$461,361	$86,263	$-	$-	$547,624	84.25%	15.75%	0.00%	0.00%	0.07%	0.03%	0.00%	0.00%
10 - 19.99	104,244	103,410	-	-	207,654	50.20	49.80	0.00	0.00	0.03	0.03	0.00	0.00
20 - 29.99	84,514	172,990	11,641	5,227	274,372	30.80	63.05	4.24	1.90	0.04	0.06	0.02	0.02
30 - 39.99	177,914	60,302	2,560	-	240,776	73.89	25.04	1.06	0.00	0.03	0.02	0.01	0.00
40 - 49.99	378,601	175,483	45,906	15,566	615,556	61.51	28.51	7.46	2.53	0.08	0.06	0.09	0.06
50 - 59.99	559,358	366,489	81,476	7,315	1,014,638	55.13	36.12	8.03	0.72	0.13	0.12	0.17	0.03
60 - 69.99	1,179,770	975,772	93,560	28,135	2,277,237	51.81	42.85	4.11	1.24	0.30	0.31	0.19	0.10
70 - 79.99	4,138,300	2,502,736	395,828	271,413	7,308,276	56.63	34.25	5.42	3.71	0.97	0.80	0.81	0.96
80 - 89.99	21,280,240	20,828,242	2,958,723	2,845,773	47,912,978	44.41	43.47	6.18	5.94	6.35	6.66	6.06	10.11
90 - 99.99	228,816,245	226,145,657	36,423,735	19,433,451	510,819,088	44.79	44.27	7.13	3.80	67.73	72.28	74.60	69.06
100 - 109.99	106,525,714	60,771,324	8,462,775	5,350,766	181,110,580	58.82	33.55	4.67	2.95	24.02	19.42	17.33	19.02
110 -	600,064	687,616	351,243	181,913	1,820,837	32.96	37.76	19.29	9.99	0.24	0.22	0.72	0.65
Total	$364,306,325	$312,876,284	$48,827,447	$28,139,562	$754,149,618	48.31%	41.49%	6.47%	3.73%	100.00%	100.00%	100.00%	100.00%

Veterans Administration Vendee Loan Portfolio
Payment Status Distribution by Current Loan / Purchase Value

Current Loan/Purchase Range	Current Account	Reportable Default	Recently in Default	Not For Sale	Total Portfolio	Percent of Group: Current Account	Percent of Group: Report. Default	Percent of Group: Recently in Def.	Percent of Group: Not For Sale	Percent of Total Portfolio: All Loans	Percent of Total Portfolio: Report. Default	Percent of Total Portfolio: Recently in Def.	Percent of Total Portfolio: Not For Sale
0 - 9.99	$367,917	$30,446	$10,326	$2,635	$411,325	89.45%	7.40%	2.51%	0.64%	0.05%	0.01%	0.02%	0.01%
10 - 19.99	403,690	272,759	61,187	15,064	752,700	53.63	36.24	8.13	2.00	0.10	0.09	0.13	0.05
20 - 29.99	753,305	345,484	209,820	64,871	1,373,480	54.85	25.15	15.28	4.72	0.18	0.11	0.43	0.23
30 - 39.99	1,896,972	983,152	584,380	184,133	3,648,637	51.99	26.95	16.02	5.05	0.48	0.31	1.20	0.65
40 - 49.99	3,016,913	1,778,214	769,591	216,217	5,780,934	52.19	30.76	13.31	3.74	0.77	0.57	1.58	0.77
50 - 59.99	5,871,544	2,393,485	592,926	264,315	9,122,269	64.36	26.24	6.50	2.90	1.21	0.76	1.21	0.94
60 - 69.99	5,200,158	4,164,745	882,481	682,159	10,929,543	47.58	38.11	8.07	6.24	1.45	1.33	1.81	2.42
70 - 79.99	10,701,038	9,364,111	1,801,193	1,703,190	23,569,533	45.40	39.73	7.64	7.23	3.13	2.99	3.69	6.05
80 - 89.99	32,510,049	41,942,121	6,481,828	5,926,766	86,860,765	37.43	48.29	7.46	6.82	11.52	13.41	13.27	21.06
90 - 99.99	276,042,894	220,346,485	34,613,196	17,891,292	548,893,866	50.29	40.14	6.31	3.26	72.78	70.43	70.89	63.58
100 - 109.99	26,006,485	29,758,310	2,513,085	972,076	59,249,937	43.89	50.23	4.24	1.64	7.86	9.51	5.15	3.45
110 +	1,535,380	1,496,972	307,434	216,842	3,556,628	43.17	42.09	8.64	6.10	0.47	0.48	0.63	0.77
Total	$364,306,325	$312,876,284	$48,827,447	$28,139,562	$754,149,618	48.31%	41.49%	6.47%	3.73%	100.00%	100.00%	100.00%	100.00%

Veterans Administration Vendee Loan Portfolio
Distribution of Payment Status by State

						Percent of State Portfolio				Percent of National Portfolio			
	Current Account	Reportable Default	Recently in Default	Not for Sale	Total Portfolio	Current Account	Report. Default	Recent. Default	Not For Sale	All Loans	Report. Default	Recent. Default	Not For Sale
Alabama	$6,116,017	$3,331,632	$2,237,752	$355,402	$12,040,804	50.79%	27.67%	18.58%	2.95%	1.57%	1.04%	4.49%	1.22%
Alaska	1,144,544	490,915	69,447	-	1,704,906	67.13	28.79	4.07	0.00	0.22	0.15	0.14	0.00
Arizona	11,724,158	8,813,883	464,099	46,347	21,048,487	55.71	41.88	2.21	0.21	2.74	2.76	0.93	0.15
Arkansas	2,632,807	2,669,230	243,611	558,807	6,104,455	43.13	43.73	3.99	9.15	0.79	0.84	0.49	1.91
California	58,635,146	29,518,352	5,867,058	1,307,273	95,327,829	61.51	30.97	6.15	1.37	12.41	9.25	11.77	4.48
Colorado	14,122,347	15,758,805	1,239,761	586,421	31,707,334	44.54	49.70	3.91	1.85	4.13	4.94	2.49	2.01
Connecticut	134,967	50,002	133,669	-	318,638	42.36	15.69	41.95	0.00	0.04	0.02	0.27	0.00
Delaware	96,854	541,570	11,762	-	650,186	14.90	83.29	1.81	0.00	0.08	0.17	0.02	0.00
D.C.	1,666,929	1,535,504	269,762	54,990	3,527,185	47.26	43.53	7.65	1.56	0.46	0.48	0.54	0.19
Florida	17,225,542	22,785,339	1,519,353	619,053	42,149,287	40.87	54.06	3.60	1.47	5.49	7.14	3.05	2.12
Georgia	11,300,799	6,709,016	1,017,977	9,362,154	28,389,947	39.81	23.63	3.59	32.98	3.70	2.10	2.04	32.08
Hawaii	1,271,771	291,422	-	126,447	1,689,640	75.27	17.25	0.00	7.48	0.22	0.09	0.00	0.43
Idaho	2,077,019	1,770,180	57,913	16,906	3,921,987	52.96	45.13	1.48	0.43	0.31	0.55	0.12	0.06
Illinois	22,969,267	38,096,318	5,218,327	327,040	66,610,952	34.48	57.19	7.83	0.49	8.67	11.94	10.47	1.12
Indiana	4,376,231	6,632,685	937,676	254,812	12,201,403	35.87	54.36	7.68	2.09	1.59	2.08	1.88	0.87
Iowa	1,928,108	1,387,072	344,506	38,790	3,698,474	52.13	37.50	9.31	1.05	0.48	0.43	0.69	0.13
Kansas	4,043,014	1,559,580	1,676,596	57,553	7,336,744	55.11	21.26	22.85	0.78	0.96	0.49	3.36	0.20
Kentucky	2,202,023	1,485,549	79,617	366,718	4,133,907	53.27	35.94	1.93	8.87	0.54	0.47	0.16	1.26
Louisiana	4,698,960	6,266,795	597,690	327,310	11,890,755	39.51	52.71	5.03	2.75	1.55	1.96	1.20	1.12
Maine	501,903	226,324	71,929	64,668	864,824	58.04	26.17	8.32	7.48	0.11	0.07	0.14	0.22
Maryland	5,362,015	6,047,894	734,325	272,224	12,416,457	43.18	48.71	5.91	2.19	1.62	1.90	1.47	0.93
Massachusetts	220,717	60,266	26,052	87,290	394,323	55.97	15.28	6.61	22.14	0.05	0.02	0.05	0.30
Michigan	10,986,784	12,192,537	2,184,031	571,310	25,934,662	42.36	47.01	8.42	2.20	3.38	3.82	4.38	1.96
Minnesota	6,400,981	1,259,835	232,517	2,346,876	10,240,209	62.51	12.30	2.27	22.92	1.33	0.39	0.47	8.04
Mississippi	3,460,950	2,772,074	1,245,975	154,344	7,633,343	45.34	36.32	16.32	2.02	0.99	0.87	2.50	0.53
Missouri	1,782,118	3,093,442	317,246	115,848	5,308,647	33.57	58.27	5.98	2.18	0.69	0.97	0.64	0.40
Montana	1,161,430	562,604	-	-	1,724,034	67.37	32.63	0.00	0.00	0.22	0.18	0.00	0.00
Nebraska	1,441,517	928,236	224,395	38,349	2,632,499	54.76	35.26	8.52	1.46	0.34	0.29	0.45	0.13
Nevada	9,657,903	3,048,041	979,832	439,828	14,125,604	68.37	21.58	6.94	3.11	1.84	0.95	1.97	1.51
New Hampshire	84,565	40,091	-	-	124,656	67.84	32.16	0.00	0.00	0.02	0.01	0.00	0.00
New Jersey	8,271,193	7,966,966	1,182,764	337,661	17,758,592	46.58	44.86	6.66	1.90	2.31	2.50	2.37	1.16
New Mexico	1,095,440	471,185	14,073	65,419	1,646,118	66.55	28.62	0.85	3.97	0.21	0.15	0.03	0.22
New York	4,848,062	7,962,248	1,382,776	50,082	14,243,168	34.04	55.90	9.71	0.35	1.86	2.50	2.77	0.17
North Carolina	7,615,003	3,076,133	1,214,421	2,608,445	14,514,002	52.47	21.19	8.37	17.97	1.89	0.96	2.44	8.93
North Dakota	697,956	83,716	21,858	-	803,530	86.86	10.42	2.72	0.00	0.10	0.03	0.04	0.00

Veterans Administration Vendee Loan Portfolio
Distribution of Payment Status by State

	Current Account	Reportable Default	Recently in Default	Not for Sale	Total Portfolio	Percent of State Portfolio				Percent of National Portfolio			
						Current Account	Report. Default	Recent. Default	Not For Sale	All Loans	Report. Default	Recent. Default	Not For Sale
Ohio	17,556,565	25,123,394	2,311,130	1,608,087	46,599,176	37.68	53.91	4.96	3.45	6.07	7.87	4.64	5.51
Oklahoma	8,181,077	6,169,832	497,664	369,453	15,218,026	53.76	40.54	3.27	2.43	1.98	1.93	1.00	1.27
Oregon	1,899,603	922,743	-	-	2,822,346	67.31	32.69	0.00	0.00	0.37	0.29	0.00	0.00
Pennsylvania	6,102,976	7,108,232	647,344	1,577,924	15,436,475	39.54	46.05	4.19	10.22	2.01	2.23	1.30	5.40
Rhode Island	-	-	-	18,670	18,670	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.06
South Carolina	3,770,201	1,589,476	541,123	392,394	6,293,195	59.91	25.26	8.60	6.24	0.82	0.50	1.09	1.34
South Dakota	586,726	133,394	-	137,490	857,609	68.41	15.55	0.00	16.03	0.11	0.04	0.00	0.47
Tennessee	4,570,972	4,654,957	838,349	352,152	10,416,430	43.88	44.69	8.05	3.38	1.36	1.46	1.68	1.21
Texas	62,517,450	47,419,561	7,156,838	950,071	118,043,921	52.96	40.17	6.06	0.80	15.37	14.86	14.36	3.25
Utah	1,993,657	1,675,203	436,231	84,451	4,189,541	47.59	39.99	10.41	2.02	0.55	0.53	0.88	0.29
Vermont	16,301	-	-	-	16,301	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Virginia	7,095,572	3,981,645	940,301	375,067	12,392,585	57.26	32.13	7.59	3.03	1.61	1.25	1.89	1.28
Washington	12,171,047	8,951,269	3,225,175	512,284	24,860,695	48.96	36.01	12.97	2.06	3.24	2.81	6.47	1.75
West Virginia	899,340	663,719	249,301	253,319	2,065,768	43.54	32.13	12.07	12.26	0.27	0.21	0.50	0.87
Wisconsin	5,096,895	3,792,842	326,711	225,958	9,442,406	53.98	40.17	3.46	2.39	1.23	1.19	0.66	0.77
Wyoming	2,021,616	1,485,274	32,976	40,527	3,580,392	56.46	41.48	0.92	1.13	0.47	0.47	0.07	0.14
Guam	255,708	-	-	34,214	289,922	88.20	0.00	0.00	11.80	0.04	0.00	0.00	0.12
Puerto Rico	3,007,906	5,781,307	832,420	710,697	10,332,331	29.11	55.95	8.06	6.88	1.35	1.81	1.67	2.43
Virgin Islands	166,537	109,955	-	-	276,492	60.09	39.91	0.00	0.00	0.04	0.03	0.00	0.00
Total	$369,855,983	$319,050,328	$49,864,419	$29,199,041	$767,969,760	48.16%	41.54%	6.49%	3.80%	100.00%	100.00%	100.00%	100.00%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
ALABAMA									
	Jefferson	$2,840,651	137	10.71%	291	48	95.9%	$1,586,536	55.85%
	Mobile	2,718,843	199	9.03	281	106	96.2	1,045,042	38.44%
	Montgomery	1,259,439	42	10.55	320	40	96.4	802,186	63.69%
	Madison	915,704	57	9.58	244	112	94.9	534,436	58.36%
	Calhoun	509,242	25	10.70	282	24	96.6	226,560	44.49%
	Dale	311,536	9	9.52	334	8	97.6	49,337	15.84%
	Cullman	300,284	7	10.43	289	14	96.7	132,903	44.26%
	Baldwin	267,480	7	10.73	319	22	96.6	109,805	41.05%
	Elmore	216,569	8	11.49	299	44	97.7	139,585	64.45%
	Russell	190,087	10	9.96	309	44	95.8	76,758	40.38%
	Houston	174,634	5	10.06	307	26	96.4	64,874	37.15%
	Tuscaloosa	170,259	5	9.61	307	28	96.4	101,905	59.85%
	Autauga	159,865	6	10.79	323	37	95.6	110,338	69.02%
	Etowah	153,276	10	9.19	232	41	95.7	27,452	17.91%
	Macon	128,719	4	11.81	302	56	96.6	128,719	100.00%
	Lee	117,361	4	13.54	306	54	97.4	91,481	77.95%
	Coffee	106,902	4	10.41	296	16	97.2	56,743	53.08%
	Talladega	103,702	5	12.06	180	60	96.8	57,447	55.40%
	Others (25)	1,037,633	52	10.47	270	37	94.6	369,440	35.60%
	Total	$11,688,212	596	10.16%	280	50	96.0%	$5,715,528	48.90%
ALASKA									
	Anchorage	$989,203	11	9.55%	353	7	97.4%	$261,736	26.46%
	Matanuska-Susitna	437,591	6	9.49	348	9	96.4	197,726	45.19%
	Fairbanks North Star	146,661	2	10.37	346	14	98.0	68,457	46.68%
	Kodiak Island	69,202	1	9.00	357	3	95.0	-	0.00%
	Kenai Peninsula	32,443	1	13.00	329	31	96.5	32,443	100.00%
	Total	$1,675,099	21	9.65%	351	8	97.1%	$560,362	33.45%
ARIZONA									
	Maricopa	$15,161,580	327	10.14%	340	10	97.9%	$6,445,084	42.51%
	Pima	3,342,227	74	10.10	339	21	97.1	1,822,006	54.51%
	Yuma	639,544	18	9.61	342	18	97.6	281,824	44.07%
	Cochise	467,963	9	9.52	349	11	95.9	69,637	14.88%
	Gila	284,402	6	10.04	352	8	99.5	126,506	44.48%
	Mohave	265,035	7	9.84	344	10	98.1	48,557	18.32%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Yavapai	165,626	4	9.04	347	7	95.2	65,743	39.65%
	Navajo	189,757	3	10.32	349	11	99.8	69,848	35.87%
	Pinal	129,477	5	9.88	332	26	96.3	74,100	57.23%
	Coconino	100,729	2	11.06	338	22	94.8	52,383	52.00%
	Apache	63,367	2	10.95	295	16	89.2	-	0.00%
	Total	$20,759,848	457	10.10%	340	19	97.6%	$9,035,890	43.52%
ARKANSAS									
	Pulaski	$3,106,375	113	10.15%	305	39	97.3%	$1,882,912	60.61%
	Jefferson	375,290	16	10.61	302	36	98.2	210,826	56.10%
	Crittenden	231,832	12	9.23	308	33	97.3	96,280	41.53%
	Phillips	168,858	7	10.65	314	39	99.0	144,946	85.94%
	Mississippi	164,627	11	9.43	288	38	97.9	92,184	56.00%
	Lonoke	154,633	5	9.55	320	4	98.6	35,477	22.94%
	Benton	142,720	5	9.04	316	18	98.3	47,959	33.60%
	White	137,867	4	11.26	303	48	98.3	113,495	82.32%
	Saline	126,167	4	11.03	297	29	97.6	75,937	60.18%
	Sebastian	122,487	14	9.84	257	65	94.9	58,499	47.77%
	Washington	118,013	4	9.17	314	48	98.6	68,817	58.31%
	Conway	99,212	4	10.04	283	30	97.2	46,716	47.09%
	Desha	89,201	2	8.66	353	7	98.7	28,737	32.22%
	Pope	86,047	3	9.74	352	8	99.9	22,010	25.58%
	Faulkner	77,041	3	10.33	309	13	99.0	42,341	54.96%
	Union	76,842	5	11.01	236	91	97.9	48,538	63.09%
	Garland	73,436	3	9.27	308	52	96.8	39,964	54.41%
	Others (35)	691,683	33	10.01	291	46	95.9	368,189	53.23%
	Total	$6,041,308	248	10.08%	303	38	97.3%	$3,423,502	56.67%
CALIFORNIA									
	Los Angeles	$32,316,886	663	9.93%	316	43	93.7%	$13,383,035	41.41%
	Riverside	15,354,667	243	9.66	343	13	90.4	5,712,322	37.20%
	San Bernardino	14,226,262	272	10.14	341	18	94.3	5,303,589	37.01%
	San Diego	11,801,910	191	10.02	343	16	94.6	2,626,226	22.25%
	San Benito	6,506,778	87	10.36	335	28	93.1	2,304,457	35.42%
	Sacramento	1,886,416	64	9.96	288	55	94.6	900,299	47.73%
	Ventura	1,728,777	28	9.49	312	33	91.6	423,099	24.47%
	Contra Costa	1,431,592	35	10.52	301	45	94.7	879,325	61.42%
	Kern	1,354,080	34	9.36	343	17	93.4	379,048	27.99%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Alameda	1,284,380	36	10.24	296	64	95.7	929,829	72.40%
	Solano	877,613	14	9.61	325	27	94.0	224,648	25.60%
	Santa Clara	670,650	24	10.38	300	60	91.7	632,283	95.50%
	San Joaquin	573,339	12	11.58	323	37	94.3	492,177	85.84%
	Fresno	498,787	12	11.60	329	31	96.5	396,559	79.82%
	Stanislaus	457,964	9	10.60	342	18	98.7	176,089	38.57%
	Santa Barbara	396,817	13	9.06	318	42	91.3	29,385	7.41%
	Napa	325,190	3	10.53	348	12	96.0	-	0.00%
	Tulare	309,601	5	9.46	354	6	99.7	48,550	15.68%
	Monterey	300,677	3	11.20	324	36	96.2	77,517	25.78%
	El Dorado	298,849	4	9.24	347	13	97.6	61,709	20.65%
	San Luis Obispo	233,207	3	9.04	359	1	93.0	90,770	38.92%
	Yolo	175,600	5	10.19	302	58	95.2	24,881	14.17%
	Butte	134,666	4	10.75	303	57	93.6	134,666	100.00%
	Shasta	122,077	2	10.58	351	9	99.6	71,127	58.26%
	San Mateo	111,186	6	9.91	237	123	88.8	76,221	68.55%
	Others (13)	876,449	17	11.10	330	30	95.6	653,833	74.60%
	Total	$84,403,940	1,787	10.03%	329	29	93.3%	$32,323,319	38.40%
COLORADO									
	El Paso	$5,811,641	128	10.33%	334	26	97.3%	$3,103,821	53.40%
	Denver	5,316,768	121	10.66	329	30	97.5	3,553,888	66.84%
	Adams	4,874,669	115	10.38	331	29	96.3	2,979,640	61.13%
	Arapahoe	4,563,948	61	10.00	344	16	98.1	2,300,463	50.41%
	Jefferson	3,459,276	54	10.46	340	20	91.4	1,619,742	46.82%
	Mesa	1,370,390	55	9.56	344	16	96.5	510,536	37.09%
	Pueblo	1,261,195	37	11.66	320	40	96.6	1,057,593	83.86%
	Weld	1,006,334	25	10.79	342	18	98.6	516,469	51.37%
	Larimer	574,030	11	9.43	355	5	96.5	100,543	17.52%
	Boulder	409,936	6	10.73	343	17	94.9	409,936	100.00%
	Moffat	324,824	8	9.95	350	10	100.6	114,972	35.21%
	Others (26)	2,391,964	60	10.01	343	17	97.6	969,475	40.53%
	Total	$31,362,074	701	10.36%	336	24	97.0%	$17,241,368	54.97%
CONNECTICUT									
	New Haven	$201,744	10	9.57%	250	108	96.2%	$94,120	46.65%
	Hartford	48,382	3	9.64	215	145	97.9	48,382	100.00%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Middlesex	34,714	1	12.50	318	42	94.0	34,714	100.00%
	Fairfield	7,064	1	5.50	99	261	98.0	-	0.00%
	Tolland	8,506	1	5.50	104	256	90.2	8,506	100.00%
	Litchfield	948	1	5.50	24	278	100.0	948	100.00%
	Total	$298,279	17	9.74%	248	113	96.3%	$183,671	61.58%
DELAWARE									
	New Castle	$385,776	30	11.79%	276	62	87.3%	$312,839	81.09%
	Kent	106,206	9	12.00	284	67	93.2	102,218	96.23%
	Sussex	68,204	4	12.29	284	60	86.0	51,675	75.77%
	Total	$560,186	33	11.91%	271	66	89.7%	$476,333	85.10%
DISTRICT OF COLUMBIA		$3,527,166	72	10.07%	331	27	96.0%	$1,860,257	52.74%
FLORIDA									
	Dade	$8,882,066	211	10.58%	314	42	96.2%	$5,957,637	67.07%
	Broward	6,483,301	135	10.30	321	56	97.1	5,057,473	78.01%
	Hillsborough	4,179,646	100	10.23	287	27	97.4	1,853,926	44.36%
	Duval	4,105,472	216	9.96	260	78	95.9	2,388,363	58.18%
	Pinellas	2,798,031	75	10.90	313	31	95.6	1,933,629	69.18%
	Palm Beach	2,415,846	59	10.30	315	32	96.7	1,362,903	56.42%
	Orange	2,389,355	54	10.21	324	24	96.3	1,065,431	44.59%
	Escambia	1,690,047	55	9.81	323	28	97.4	806,449	47.72%
	Polk	896,063	27	10.77	307	30	98.1	553,944	61.82%
	Seminole	757,820	18	9.96	310	22	96.2	266,967	35.23%
	Lee	622,177	17	10.62	298	29	94.2	417,022	67.03%
	Okaloosa	587,801	15	9.81	332	19	97.0	154,747	26.33%
	Brevard	579,698	17	9.67	324	35	96.0	307,826	53.10%
	Clay	571,671	11	10.46	297	28	95.5	348,276	60.92%
	Alachua	516,698	15	9.66	306	34	97.5	229,534	44.42%
	Others (29)	3,974,345	113	10.33	282	25	96.5	1,869,272	47.03%
	Total	$41,446,733	1,138	10.33%	313	37	96.5%	$24,573,286	59.29%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
GEORGIA									
	Fulton	$4,867,024	184	10.57%	285	72	96.4%	$3,882,892	79.78%
	De Kalb	4,788,429	182	10.02	286	70	88.9	3,450,079	72.05%
	Richmond	3,167,333	111	10.15	313	45	97.4	1,466,808	46.31%
	Muscogee	2,844,078	108	10.09	309	48	97.7	1,459,654	51.32%
	Chatham	1,222,908	37	9.55	324	38	97.5	464,282	37.97%
	Liberty	1,026,687	25	9.37	349	7	99.0	249,863	24.34%
	Cobb	898,628	24	11.27	308	40	93.9	602,368	67.03%
	Dougherty	798,383	25	10.13	322	35	99.2	460,978	57.74%
	Clayton	762,677	24	10.83	306	33	95.9	543,062	71.21%
	Bibb	631,932	24	10.90	296	54	96.5	498,503	78.89%
	Gwinnett	608,503	15	9.46	330	18	97.7	238,719	39.03%
	Others (74)	5,856,396	238	10.55	292	43	97.7	2,903,904	49.59%
	Total	$27,477,856	965	10.27%	300	51	96.9%	$16,227,838	59.06%
HAWAII									
	Honolulu	$1,587,070	16	11.09%	327	34	97.0%	$417,869	26.33%
	Hawaii	102,570	2	11.96	158	25	100.0	-	0.00%
	Total	$1,689,640	18	11.14%	317	33	97.2%	$417,869	24.73%
IDAHO									
	Ada	$1,532,882	37	10.97%	321	34	95.8%	$817,536	53.34%
	Bannock	334,298	11	11.21	311	25	93.3	189,450	56.65%
	Twin Falls	322,424	10	10.38	341	16	94.4	57,440	17.81%
	Canyon	261,756	6	10.06	322	16	96.5	105,736	40.39%
	Bonneville	211,016	9	8.88	301	39	93.9	33,300	15.78%
	Kootenai	147,828	3	12.50	327	35	97.7	147,828	100.00%
	Bonner	115,047	3	9.38	322	4	87.9	-	0.00%
	Latah	110,930	1	10.00	348	18	98.6	110,930	100.00%
	Jerome	103,930	3	12.22	287	25	98.4	52,333	50.35%
	Others (19)	766,773	33	10.07	290	27	96.4	330,720	43.13%
	Total	$3,906,487	116	10.61%	313	29	94.8%	$1,844,969	47.23%
ILLINOIS									
	Cook	$59,303,618	1,034	10.15%	326	23	93.7%	$34,964,030	58.82%

Veterans Admin'-tration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Will	6,380,352	177	10.20	330	18	94.8	4,080,089	64.15%
	Lake	4,478,388	114	10.01	328	23	82.8	2,833,330	63.27%
	Du Page	3,203,997	56	10.03	336	22	93.4	2,004,482	62.56%
	Kane	2,671,416	79	10.04	325	26	90.2	1,762,333	65.60%
	St. Clair	2,101,417	164	10.02	279	66	93.7	1,394,714	66.37%
	Winnebago	1,770,352	67	10.36	312	25	93.9	1,115,056	62.99%
	Peoria	1,157,602	64	10.56	290	19	94.3	526,169	45.45%
	Macon	993,566	50	10.99	312	25	96.0	544,904	54.84%
	Tazewell	800,022	41	10.11	314	30	95.5	263,566	32.94%
	Madison	738,476	40	10.81	308	27	94.2	498,257	67.47%
	Rock Island	738,938	37	9.95	324	15	94.6	432,626	58.73%
	Sangamon	594,151	24	10.90	325	19	130.6	399,331	67.21%
	McHenry	529,447	12	10.58	338	22	98.0	311,656	58.86%
	Others (81)	3,640,768	167	10.35	315	19	94.8	1,993,001	54.74%
	Total	$66,080,816	2,128	10.18%	323	34	92.7%	$43,133,734	65.27%
INDIANA									
	Lake	$3,487,798	219	10.13%	299	51	94.9%	$2,275,316	65.30%
	Marion	3,172,100	173	10.84	298	60	93.9	2,266,893	71.43%
	Allen	734,778	43	10.90	305	48	94.6	474,478	64.57%
	St. Joseph	677,865	44	10.08	306	52	94.3	473,343	69.83%
	Madison	494,312	28	10.09	318	36	95.7	287,342	58.59%
	Others (51)	3,440,649	152	10.04	331	27	95.7	1,851,103	53.80%
	Total	$11,939,474	657	10.49%	300	49	94.9%	$7,607,476	63.72%
IOWA									
	Polk	$1,130,417	84	9.47%	307	42	93.0%	$542,841	48.02%
	Linn	416,135	16	10.71	319	23	96.1	237,366	57.04%
	Pottawattamie	330,832	30	8.94	223	125	94.6	99,309	30.02%
	Scott	204,633	12	10.32	306	27	96.6	159,421	77.83%
	Black Hawk	193,300	18	9.66	283	45	96.8	108,110	55.93%
	Woodbury	172,010	11	9.38	276	40	97.6	50,122	29.14%
	Warren	160,290	7	10.96	298	48	93.6	101,944	63.60%
	Wapello	101,581	7	11.09	199	31	96.3	38,118	37.52%
	Others (33)	874,206	54	10.43	280	24	94.0	433,137	9.55%
	Total	$3,583,599	203	9.96%	282	42	94.7%	$1,770,389	49.40%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
KANSAS									
	Sedgwick	$2,543,137	237	9.31%	290	66	97.2%	$821,354	32.30%
	Wyandotte	1,311,240	61	10.54	266	67	97.3	840,702	64.12%
	Johnson	755,806	21	11.39	305	37	94.7	486,612	64.38%
	Shawnee	488,441	34	11.18	264	36	97.3	240,916	49.32%
	Leavenworth	202,563	8	11.41	298	33	96.5	186,791	92.21%
	Cowley	172,319	8	9.72	340	6	99.1	52,596	30.52%
	Montgomery	150,550	11	10.06	293	26	96.1	74,638	49.58%
	Others (36)	1,641,090	82	10.27	298	23	97.6	557,859	33.99%
	Total	$7,265,149	472	10.17%	289	46	97.1%	$3,261,468	44.89%
KENTUCKY									
	Jefferson	$2,059,301	170	9.50%	265	68	97.3%	$1,050,907	51.03%
	Hardin	456,784	11	10.04	336	7	99.0	46,863	10.29%
	Christian	221,042	10	11.34	265	56	96.5	140,673	63.64%
	Kenton	151,902	4	11.16	344	16	98.1	75,776	49.88%
	Fayette	148,028	4	9.70	333	21	97.6	37,246	25.16%
	Bullitt	146,176	4	11.23	299	33	97.6	123,521	84.50%
	Campbell	140,489	5	10.36	305	10	96.3	46,231	32.91%
	Others (17)	677,435	29	10.60	302	30	96.2	380,419	56.16%
	Total	$4,000,106	237	10.04%	288	57	97.7%	$1,901,658	47.54%
LOUISIANA									
	Jefferson	$1,975,457	84	10.00%	323	37	98.4%	$1,004,564	51.22%
	East Baton Rouge	1,662,620	133	8.36	206	123	99.6	804,580	48.39%
	Calcasieu	1,279,843	119	7.96	243	140	96.4	688,108	53.76%
	Orleans	1,200,969	36	10.23	321	31	97.6	847,863	70.60%
	Caddo	894,316	93	7.44	221	169	99.2	364,268	40.73%
	Bossier	748,380	67	7.62	238	144	99.5	306,916	40.99%
	St. John the Baptist	672,884	12	10.53	340	20	99.7	514,989	76.53%
	St. Tammany	481,704	12	9.64	337	23	98.2	371,433	77.11%
	Lafayette	333,640	15	8.61	327	41	99.6	168,965	50.65%
	Terrebonne	326,401	8	10.29	342	18	99.3	104,984	32.16%
	Others (84)	2,224,400	142	9.11	282	74	97.2	1,330,427	60.04%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Total	$11,796,823	700	9.05%	286	61	96.5%	$7,111,116	60.27%
MAINE									
	Penobscot	$204,787	6	12.00%	237	66	97.2%	$100,848	49.25%
	Washington	136,042	11	12.02	195	64	94.0	84,074	61.80%
	Others (11)	493,136	28	10.44	236	69	96.8	147,139	29.84%
	Total	$833,965	45	11.08%	230	67	96.4%	$332,061	39.82%
MARYLAND									
	Prince Georges	$8,280,823	147	10.19%	335	25	97.1%	$4,300,280	52.25%
	Baltimore City	1,053,128	59	11.23	294	61	91.0	678,387	64.42%
	Anne Arundel	700,832	10	10.14	325	35	94.1	453,894	64.77%
	Baltimore	565,867	13	11.84	271	53	98.0	391,472	69.18%
	Montgomery	470,038	7	11.02	332	28	95.4	290,965	63.82%
	Charles	288,330	4	11.15	330	30	97.2	204,195	70.82%
	Harford	196,480	4	11.04	318	42	98.7	147,118	74.87%
	Others (12)	836,340	19	10.97	280	25	97.1	504,243	60.29%
	Total	$12,341,848	263	10.47%	323	31	96.4%	$6,970,833	56.55%
MASSACHUSETTS									
	Plymouth	$138,803	5	10.88%	274	88	98.5%	$79,544	57.31%
	Suffolk	83,003	14	10.36	136	117	86.8	52,350	63.07%
	Middlesex	70,282	7	7.62	141	183	93.0	-	0.00%
	Hampden	31,166	4	9.65	168	137	79.9	18,723	60.07%
	Essex	21,956	3	7.15	147	209	46.4	-	0.00%
	Bristol	15,034	2	8.28	127	173	95.3	3,784	25.17%
	Worcester	11,969	2	7.44	119	163	78.5	7,745	64.71%
	Norfolk	11,480	1	7.50	143	217	94.7	11,480	100.00%
	Berkshire	10,650	1	13.50	225	75	94.4	-	0.00%
	Total	$394,321	39	9.70%	190	130	88.5%	$173,626	44.03%
MICHIGAN									

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Wexford	$13,945,907	1,176	10.04%	275	58	96.6%	$8,628,472	61.87%
	Oakland	2,432,108	136	10.26	306	49	96.9	1,282,524	52.73%
	Genesee	1,572,680	103	10.34	284	64	97.5	861,383	54.77%
	Macomb	1,374,643	79	10.51	303	43	96.1	666,614	48.49%
	Ingham	835,417	44	9.31	308	48	96.2	585,332	70.06%
	Kent	650,388	27	11.06	315	28	90.7	420,777	64.70%
	Washtenaw	526,583	31	9.97	293	58	96.9	351,177	66.69%
	Kalamazoo	498,872	29	9.67	313	39	96.0	337,108	67.57%
	Calhoun	483,933	23	9.25	298	38	97.5	319,344	65.99%
	Others (42)	3,030,628	167	9.97	300	28	96.1	1,237,881	40.85%
	Total	$25,351,225	1,814	10.08%	287	51	96.3%	$14,690,612	57.95%
MINNESOTA									
	Hennepin	$3,301,741	70	10.28%	339	21	95.3%	$1,179,518	35.72%
	Ramsey	1,406,872	29	10.32	336	24	96.7	516,822	36.73%
	Anoka	937,155	27	9.88	330	29	94.1	363,642	38.80%
	Dakota	815,550	14	9.37	346	8	94.6	176,888	21.69%
	St. Louis	627,794	30	10.51	262	83	96.2	282,619	45.01%
	Washington	385,459	10	9.69	315	44	94.7	216,174	56.08%
	Mower	229,274	8	9.34	318	1	97.3	13,194	5.75%
	Other (40)	2,264,800	70	10.62	308	19	93.5	1,064,768	47.02%
	Total	$10,011,406	267	10.19%	328	21	95.0%	$3,825,624	38.21%
MISSISSIPPI									
	Hinds	$1,875,114	102	9.87%	272	74	96.9%	$1,104,387	58.90%
	Jackson	1,870,903	82	9.97	277	74	96.1	1,365,275	72.97%
	Harrison	1,079,685	42	9.88	300	46	97.8	339,731	31.47%
	Rankin	321,295	10	10.66	296	43	96.7	159,001	49.49%
	Washington	312,782	22	9.30	267	90	97.1	211,183	67.52%
	Warren	272,584	10	10.30	281	27	90.0	102,870	37.74%
	Lauderdale	197,063	12	9.18	283	36	93.3	53,885	27.34%
	Others (31)	1,410,786	63	10.26	281	34	96.8	600,150	42.54%
	Total	$7,340,302	343	9.98%	281	50	97.4%	$3,936,461	53.63%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
MISSOURI									
	Jackson	$2,466,227	337	8.91%	207	130	93.8%	$1,652,483	67.00%
	St. Louis	1,210,050	71	9.80	254	91	92.1	973,391	80.44%
	St. Louis City	277,963	35	9.38	215	115	87.8	197,979	71.22%
	Buchanan	254,091	9	10.74	304	18	97.1	67,067	26.39%
	Clay	206,517	10	9.22	202	64	94.7	50,477	24.44%
	Jasper	117,018	7	12.04	310	40	87.7	96,047	82.08%
	Others (22)	603,646	31	10.96	287	44	94.1	321,227	53.21%
	Total	$5,136,510	500	9.58%	236	100	93.2%	$3,358,840	65.40%
MONTANA									
	Cascade	$336,377	12	9.72%	326	21	96.7%	$114,981	34.18%
	Yellowstone	267,810	8	11.19	240	38	91.5	95,263	35.57%
	Missoula	249,373	7	10.03	306	17	93.9	106,595	42.75%
	Flathead	130,332	3	10.30	352	8	96.4	37,700	28.93%
	Lewis and Clark	114,873	3	9.68	338	9	86.5	62,437	54.35%
	Others (16)	564,120	22	10.23	268	14	94.5	145,628	25.82%
	Total	$1,661,296	55	10.22%	299	19	94.2%	$562,604	33.87%
NEBRASKA									
	Douglas	$993,806	56	10.07%	270	81	96.9%	$547,058	55.05%
	Sarpy	440,779	11	9.91	319	24	96.5	159,764	36.25%
	Lancaster	296,553	9	10.17	327	38	89.0	144,593	48.76%
	Hall	101,450	6	9.41	294	3	97.0	-	0.00%
	Others (10)	463,007	26	10.57	275	34	96.7	251,519	54.32%
	Total	$2,375,587	108	10.10%	289	50	96.5%	$1,102,934	46.43%
NEVADA									
	Clark	$12,879,213	284	9.89%	347	13	96.9%	$4,116,143	31.96%
	Douglas	802,606	1	12.50	321	39	96.0	-	0.00%
	Washoe	308,287	7	10.85	313	47	92.6	289,865	94.02%
	White Pine	70,019	2	11.88	269	81	96.6	42,856	61.21%
	Carson City	10,908	1	7.50	144	216	91.8	-	0.00%
	Total	$14,071,032	295	9.88%	344	15	96.7%	$4,448,864	31.62%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
NEW HAMPSHIRE									
	Strafford	$70,289	7	7.92%	213	175	108.2%	$23,867	33.96%
	Rockingham	29,104	1	12.50	314	46	90.0	-	0.00%
	Merrimack	18,601	2	9.12	184	137	100.0	16,224	87.22%
	Cheshire	6,062	1	8.00	106	252	98.5	-	0.00%
	Total	$124,056	11	8.92%	224	143	101.1%	$40,091	32.16%
NEW JERSEY									
	Essex	$3,889,738	180	10.95%	271	88	91.1%	$2,041,108	52.47%
	Burlington	3,214,877	101	11.07	285	60	92.0	1,919,538	59.71%
	Camden	2,933,086	141	10.96	294	45	93.3	1,603,191	54.66%
	Mercer	1,133,648	94	10.81	287	62	91.2	623,428	54.99%
	Union	951,051	41	10.80	258	96	98.2	505,990	53.20%
	Gloucester	790,681	39	11.38	286	48	92.3	469,808	59.42%
	Atlantic	756,629	24	10.57	321	33	92.0	105,132	13.89%
	Monmouth	610,956	26	12.28	280	81	89.5	227,851	37.29%
	Hudson	605,578	32	9.20	246	95	90.8	240,078	39.64%
	Ocean	485,586	20	10.98	280	89	87.6	310,006	63.84%
	Middlesex	423,887	18	11.37	274	80	87.4	375,915	88.68%
	Cumberland	357,840	17	10.97	283	48	88.1	166,665	46.58%
	Sussex	321,838	9	12.43	302	54	85.4	181,493	56.38%
	Others (7)	864,932	36	10.71	249	98	90.5	456,512	52.78%
	Total	$17,340,347	788	10.97%	277	68	91.1%	$9,226,717	53.21%
NEW MEXICO									
	Bernalillo	$496,561	27	9.81%	291	68	96.7%	$259,679	52.30%
	Chaves	250,571	21	9.37	278	69	96.3	99,453	39.69%
	Sandoval	223,001	3	9.29	304	8	97.2	-	0.00%
	Curry	212,281	12	9.01	307	53	97.3	106,659	50.25%
	San Juan	198,684	8	9.35	324	24	98.6	24,267	12.21%
	Others (7)	259,877	16	9.35	317	42	98.8	56,408	21.70%
	Total	$1,641,056	87	9.29%	308	51	97.6%	$546,463	33.29%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
NEW YORK									
	Queens	$4,280,679	186	10.09%	252	89	88.8%	$3,227,590	75.40%
	Suffolk	3,088,446	152	11.04	288	90	91.7	2,180,330	70.60%
	Nassau	1,334,720	67	10.83	259	92	91.7	1,101,620	82.54%
	Bronx	900,831	36	11.05	270	51	90.1	353,441	39.24%
	Kings	900,700	43	11.88	229	58	85.0	509,047	56.52%
	Erie	665,480	41	11.38	306	64	93.1	426,658	64.11%
	Richmond	412,118	17	12.09	281	56	88.0	248,718	60.35%
	Monroe	325,061	17	10.81	274	76	92.7	234,419	72.12%
	Others (35)	1,796,066	94	11.38	270	45	90.5	818,919	45.58%
	Total	$13,704,874	653	11.20%	258	77	90.1%	$9,100,738	66.41%
NORTH CAROLINA									
	Cumberland	$6,768,730	225	10.20%	300	55	98.8%	$3,889,283	57.46%
	Onslow	1,477,249	39	9.42	327	14	98.0	253,935	17.19%
	Mecklenburg	1,062,916	62	8.68	279	72	97.7	460,022	43.28%
	Craven	463,770	13	8.99	333	8	97.4	141,808	30.58%
	Guilford	359,095	14	9.16	310	49	94.6	175,538	48.88%
	Buncombe	324,908	9	10.32	312	14	87.2	91,838	28.27%
	Wayne	319,803	10	9.28	301	23	99.0	20,185	6.31%
	Wake	243,500	11	9.25	316	75	96.4	66,156	27.17%
	Forsyth	240,031	9	9.98	290	60	96.0	51,207	21.33%
	Gaston	236,503	11	10.39	264	30	96.7	51,619	21.83%
	Harnett	203,928	7	9.46	272	61	100.0	203,928	100.00%
	Others (47)	2,518,140	109	10.44	273	47	95.8	1,296,779	51.50%
	Total	$14,218,860	519	9.94%	295	47	97.8%	$6,701,096	47.13%
NORTH DAKOTA									
	Ward	$195,510	10	9.69%	301	4	94.4%	$53,603	27.42%
	Stark	171,108	5	9.87	360	-	97.2	-	0.00%
	Williams	98,598	5	9.70	336	-	96.9	-	0.00%
	Burleigh	96,268	2	9.18	359	1	94.6	51,968	53.98%
	Others (9)	242,045	13	9.04	315	11	95.9	0	0.00%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Total	$803,530	35	9.41%	329	4	95.6%	$105,572	13.14%
OHIO									
	Cuyahoga	$11,217,306	590	10.41%	282	58	91.7%	$7,822,586	69.74%
	Franklin	6,083,054	217	10.78	299	50	94.4	3,986,107	65.08%
	Montgomery	3,325,050	186	11.18	277	66	91.3	2,422,863	72.87%
	Hamilton	3,302,648	128	10.04	295	50	94.3	2,112,470	63.96%
	Summit	3,162,829	170	10.24	279	52	94.0	1,749,234	55.31%
	Lucas	1,904,584	121	11.05	284	51	93.3	1,249,883	65.62%
	Lorain	1,866,180	77	10.77	306	41	93.9	1,069,406	57.32%
	Stark	1,509,479	86	10.60	277	51	94.6	1,073,224	71.10%
	Mahoning	1,163,401	68	10.86	249	66	93.2	908,475	78.09%
	Trumbull	741,819	56	9.60	241	63	91.8	359,160	48.41%
	Clark	637,170	35	11.06	272	50	106.0	378,630	59.42%
	Others (65)	9,634,164	472	11.03	275	36	94.6	5,301,393	55.03%
	Total	$44,187,804	2,228	10.67%	281	51	93.5%	$28,147,401	63.74%
OKLAHOMA									
	Oklahoma	$5,339,781	187	10.05%	329	23	96.4%	$2,587,751	48.46%
	Tulsa	2,828,344	170	9.20	289	58	96.5	1,248,088	44.13%
	Cleveland	1,409,357	36	9.72	342	6	96.8	421,921	29.94%
	Comanche	1,300,488	85	10.07	319	38	96.0	628,803	48.35%
	Canadian	587,127	19	10.38	347	7	99.2	104,214	17.75%
	Wagoner	439,027	13	10.49	300	34	97.1	374,145	85.22%
	Stephens	385,961	22	10.23	297	35	97.1	148,762	38.54%
	Muskogee	319,147	14	10.81	328	18	85.3	158,862	49.78%
	Others (31)	2,305,066	60	11.00	286	25	95.6	1,266,283	54.93%
	Total	$14,914,272	606	10.05%	315	29	96.5%	$6,938,838	46.52%
OREGON									
	Multnomah	$1,457,080	35	9.90%	350	10	99.7%	$463,376	31.80%
	Lane	333,590	8	9.60	302	10	99.7	75,110	22.52%
	Washington	207,968	3	10.53	345	15	99.7	79,072	38.02%
	Clackamas	189,042	4	10.52	331	21	98.7	90,822	48.04%
	Jackson	167,831	4	9.34	350	10	99.9	79,349	47.27%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delnq.
	Marion	139,502	4	10.05	346	13	97.9	60,838	43.37%
	Others (8)	327,213	8	9.71	344	15	99.9	74,477	22.76%
	Total	$2,822,346	64	9.93%	347	12	98.6%	$922,743	32.69%
PENNSYLVANIA									
	Philadelphia	$4,703,042	327	11.10%	273	49	88.8%	$3,441,435	73.17%
	Allegheny	3,978,793	196	10.87	257	38	96.0	2,202,827	55.37%
	Erie	760,960	41	10.63	243	42	96.2	444,975	58.48%
	Delaware	631,957	26	10.44	304	43	98.4	356,288	56.38%
	Montgomery	543,140	14	10.76	313	46	96.7	287,123	52.86%
	Bucks	395,690	17	10.61	300	73	93.9	252,520	63.82%
	York	372,855	15	10.50	302	21	94.6	273,266	73.29%
	Beaver	372,288	23	10.19	232	18	97.6	129,193	34.70%
	Dauphin	340,439	25	11.06	284	50	91.5	247,985	72.84%
	Westmoreland	300,826	18	10.11	283	18	98.7	111,303	37.00%
	Others (38)	2,619,450	121	11.06	284	33	96.2	1,379,246	52.65%
	Total	$15,019,427	821	10.90%	272	41	93.3%	$9,126,272	60.76%
RHODE ISLAND		$18,670	1	9.00%	172	128	93.9%	$18,670	100.00%
SOUTH CAROLINA									
	Charleston	$1,061,180	29	10.44%	316	24	94.1%	$424,808	40.03%
	Richland	1,046,785	47	10.11	282	69	97.0	656,764	62.74%
	Berkeley	771,454	17	9.80	345	10	98.9	90,058	[illegible]
	Greenville	663,579	28	9.83	313	37	96.4	260,464	39.25%
	Dorchester	501,695	10	9.76	348	2	98.4	98,588	19.65%
	Spartanburg	369,032	13	11.13	274	55	96.1	185,255	50.20%
	Lexington	276,450	8	10.17	317	34	98.3	54,359	19.66%
	Others (22)	1,559,363	73	10.46	297	36	95.7	709,053	45.47%
	Total	$6,249,546	225	10.22%	309	35	96.0%	$2,479,348	39.67%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
SOUTH DAKOTA									
	Pennington	$323,063	10	10.70%	330	20	96.5%	$123,255	38.15%
	Minnehaha	224,203	8	10.31	324	12	89.9	60,236	26.87%
	Meade	70,365	2	8.78	356	4	96.6	38,914	55.30%
	Brown	84,711	3	10.03	344	2	74.6	-	0.00%
	Others (6)	154,766	10	10.29	284	18	97.2	48,478	31.32%
	Total	$837,109	33	10.31%	319	14	94.1%	$270,883	32.36%
TENNESSEE									
	Shelby	$4,449,361	271	10.30%	271	74	96.2%	$2,872,002	64.55%
	Davidson	1,146,672	49	11.47	311	45	97.8	450,963	39.33%
	Montgomery	917,577	28	9.83	337	23	97.8	244,944	26.69%
	Hamilton	646,910	35	11.03	245	48	95.9	294,982	45.60%
	Sumner	411,341	9	10.71	300	33	96.9	199,883	48.43%
	Knox	373,366	12	10.98	318	23	94.4	278,663	74.64%
	Madison	342,009	15	10.95	295	47	96.5	280,449	82.00%
	Bradley	133,032	4	9.37	343	17	99.3	60,320	45.34%
	Rutherford	106,055	5	11.06	245	79	96.8	80,545	76.02%
	Sullivan	105,196	5	10.29	301	48	96.8	89,965	85.03%
	Wilson	103,738	4	10.45	294	66	98.4	98,760	95.20%
	Others (36)	1,291,888	56	10.42	297	37	97.4	577,333	44.69%
	Total	$10,028,027	493	10.51%	288	54	96.8%	$5,538,904	55.23%
TEXAS									
	Harris	$35,850,784	1,066	9.79%	318	29	97.7%	$20,873,321	58.31%
	Bexar	8,867,923	322	9.76	304	52	97.2	5,312,905	59.91%
	Dallas	6,804,374	152	9.87	332	18	98.0	2,116,960	31.11%
	Tarrant	6,198,246	104	9.47	337	17	96.6	1,111,397	17.93%
	Fort Bend	5,492,248	119	9.81	343	18	99.2	3,207,402	58.40%
	El Paso	3,129,775	79	9.87	345	13	98.4	1,104,631	35.29%
	Galveston	3,051,902	89	9.92	310	22	98.3	1,498,733	49.11%
	Bell	2,580,654	61	9.36	347	6	99.0	491,698	19.05%
	Nueces	2,104,345	64	9.68	326	22	96.5	606,272	28.81%
	Montgomery	2,009,806	56	9.65	318	12	96.2	776,969	38.66%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Jefferson	1,874,848	84	9.66	288	45	93.4	879,960	46.93%
	Taylor	1,659,438	51	9.42	346	6	96.4	358,158	21.58%
	Lubbock	1,641,802	74	9.60	323	32	96.6	739,427	45.04%
	Travis	1,222,721	23	10.22	342	16	96.5	397,079	32.48%
	Brazoria	1,157,914	32	9.96	311	15	96.7	503,453	43.48%
	Denton	955,876	15	9.64	353	7	96.7	323,064	33.80%
	Wichita	886,006	30	9.68	338	10	97.6	286,042	32.31%
	Cameron	743,217	25	9.52	341	16	96.6	166,127	[illegible]
	Midland	707,828	53	8.48	292	85	97.7	138,944	[illegible]
	Ector	704,415	20	9.64	305	16	96.6	244,297	[illegible]
	Orange	673,014	37	9.65	286	40	96.7	270,087	40.13%
	Coryell	610,620	15	9.67	334	12	96.8	164,448	26.93%
	Hidalgo	583,875	19	10.18	330	10	97.4	128,704	22.04%
	Williamson	548,188	6	9.01	356	4	96.7	40,435	7.38%
	Others (83)	8,465,680	279	10.06	310	26	96.1	3,739,000	44.17%
	Total	$116,134,448	3,546	9.77%	321	36	97.0%$44,103,614		37.98%
UTAH									
	Salt Lake	$1,681,190	45	10.02%	317	43	94.7%	$1,032,698	61.42%
	Utah	643,473	16	11.02	327	33	95.1	453,367	70.46%
	Weber	520,622	29	8.68	290	70	96.6	150,408	28.89%
	Davis	378,407	8	8.83	337	23	96.6	185,953	49.14%
	Uintah	176,092	6	9.30	355	5	100.0	73,735	41.87%
	Sevier	107,525	2	11.50	336	22	96.3	61,766	57.46%
	Others (12)	661,871	18	9.60	339	14	94.9	221,595	33.48%
	Total	$4,179,240	124	9.88%	323	36	96.4%	$2,185,563	52.30%
VERMONT		$18,301	1	9.00%	190	110	97.0%	-	0.00%
VIRGINIA									
	Virginia Beach	$2,434,286	40	9.78%	320	8	97.7%	$770,324	31.64%
	Prince William	1,693,601	23	10.14	337	23	97.5	604,654	35.70%
	Richmond	1,062,648	28	10.26	318	29	98.1	497,553	46.82%
	Chesapeake	694,842	17	10.57	279	50	97.3	386,395	55.61%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Fairfax	670,203	10	11.38	337	23	98.2	420,425	62.73%
	Norfolk	573,041	15	11.60	312	36	98.0	225,769	39.40%
	Alexandria	464,608	7	10.83	344	10	97.1	325,021	69.96%
	Hampton	458,185	16	10.30	303	42	93.2	209,065	45.63%
	Portsmouth	430,371	13	10.40	307	42	93.4	212,284	49.33%
	Roanoake	423,428	19	11.76	268	53	96.3	293,577	69.33%
	Newport News	392,006	13	9.87	332	26	96.0	121,309	30.95%
	Petersburg	313,707	9	11.35	299	30	96.1	104,453	33.30%
	Others (45)	2,618,063	88	10.67	284	41	97.6	988,083	37.74%
	Total	$12,228,960	298	10.47%	317	29	97.1%	$5,164,913	42.24%
WASHINGTON									
	King	$8,876,977	180	10.14%	335	25	97.6%	$4,634,460	52.21%
	Pierce	5,595,709	135	10.34	338	22	98.3	3,089,050	55.20%
	Snohomish	2,658,080	61	10.71	323	37	96.0	1,692,047	63.66%
	Kitsap	1,558,715	39	9.58	347	13	99.4	598,147	38.37%
	Thurston	1,181,213	25	9.55	330	24	96.3	522,476	44.23%
	Clark	1,169,087	24	10.70	336	23	96.0	494,184	42.27%
	Spokane	909,885	35	10.99	324	36	98.6	588,725	64.70%
	Cowlitz	725,966	24	9.26	343	9	98.4	265,729	36.60%
	Benton	496,929	11	9.59	336	19	99.5	208,130	41.88%
	Others (16)	1,633,092	63	9.40	330	23	97.3	540,770	33.11%
	Total	$24,805,664	597	10.16%	334	24	97.8%	$12,633,718	50.93%
WEST VIRGINIA									
	Kanawha	$240,746	17	11.24%	218	44	97.8%	$110,731	45.99%
	Mercer	226,568	12	11.70	268	28	98.7	135,539	59.82%
	Wood	199,924	8	10.22	293	21	100.0	134,352	67.20%
	Cabell	154,910	9	10.51	237	49	90.3	44,346	28.63%
	Harrison	148,546	6	10.82	293	34	98.8	87,686	59.03%
	Putnam	147,376	3	12.04	322	38	96.5	147,376	100.00%
	Raleigh	142,662	4	10.64	323	14	97.6	75,504	52.93%
	Fayette	102,725	5	11.38	289	26	97.4	56,771	55.26%
	Others (19)	660,852	34	10.90	229	28	97.2	374,124	56.61%
	Total	$2,024,310	98	11.02%	280	31	97.3%	$1,166,428	57.62%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
WISCONSIN									
	Milwaukee	$4,767,650	181	10.10%	300	39	95.0%	$2,297,727	48.19%
	Kenosha	822,380	39	9.50	286	57	94.7	423,963	51.55%
	Racine	752,031	29	10.79	323	34	95.8	447,649	59.53%
	Waukesha	474,710	10	11.19	320	40	96.3	288,701	60.82%
	Rock	404,284	32	10.11	283	26	96.8	132,361	32.74%
	Washington	264,622	5	11.04	331	39	97.6	264,622	100.00%
	Dane	242,424	11	9.78	308	51	96.0	104,228	42.99%
	Walworth	215,298	6	9.10	334	10	93.5	30,363	14.10%
	Others (20)	1,407,513	52	10.24	323	12	94.9	313,270	22.26%
	Total	$9,350,913	365	10.20%	306	35	95.5%	$4,302,974	46.02%
WYOMING									
	Natrona	$1,026,146	39	10.14%	346	14	97.9%	$496,457	48.38%
	Campbell	670,336	13	10.27	350	10	99.2	242,019	36.10%
	Laramie	637,831	21	9.66	333	27	98.2	301,042	47.20%
	Sweetwater	275,226	5	10.23	349	11	99.2	117,453	42.68%
	Carbon	209,484	6	11.31	334	28	90.9	156,078	74.51%
	Others (10)	761,309	22	9.67	350	10	97.8	245,727	32.27%
	Total	$3,580,302	106	10.06%	345	16	97.9%	$1,558,776	43.54%
GUAM		$289,922	6	11.51%	309	1	94.8%	$34,214	11.80%
PUERTO RICO									
	Barceloneta	$251,325	7	11.71%	281	68	93.2%	$155,310	61.80%
	Bayamon	1,799,762	65	11.75	274	79	93.6	1,439,633	79.99%
	Caguas	646,969	28	10.97	252	98	92.6	451,975	69.86%
	Carolina	1,077,545	40	11.14	256	85	89.2	757,585	70.31%
	Catano	284,200	9	10.78	289	97	94.1	284,200	100.00%
	Gurabo	272,712	9	10.89	269	70	92.2	205,828	75.47%
	Ponce	563,796	22	10.56	268	79	90.1	313,566	55.62%
	Rio Grande	277,894	10	10.97	284	74	91.3	91,621	32.97%
	San Juan	1,360,898	38	11.31	278	80	86.8	1,005,507	73.89%

Veterans Administration Vendee Loan Portfolio
Distribution by County

State	County	Total Balance	Number of Loans	Coupon	WAM (Months)	Age (Months)	Orig. LTV	Delinquent Balance	Pct. Delin.
	Toa Baja	498,117	21	11.02	257	91	90.9	393,420	78.98%
	Others (53)	3,163,862	129	11.56	254	56	90.6	1,930,103	61.00%
	Total	$10,166,796	378	11.33%	264	78	90.7%	$7,310,132	71.90%
VIRGIN ISLANDS		$275,492	7	11.63%	278	81	89.0%	$109,355	39.91%

APPENDIX B

In April 1987, VA issued a competitive request for bids (Notice 87-3) for the nonrecourse sale of a $84 million package of vendee loans. At that time, Kidder, Peabody undertook an extensive analysis of the vendee loan program and the data provided by VA in order to respond to the bid request. Our goal was to make a bid which was attractive to VA by structuring a securitized transaction using the senior/subordinated approach and external credit enhancement. Under this approach, VA would have received significant upfront proceeds as well as ongoing cash flow as a result of its retention of the subordinated position.

Due to time constraints, Kidder, Peabody was ultimately unable to submit such a bid to VA. As the attached letter from Financial Guaranty Insurance Company (FGIC) indicates, the timeframe provided by Notice 87-3 was not sufficiently long to enable FGIC to complete the detailed analysis it needed to credit enhance a "non-standard" portfolio of mortgage loans.

FGIC, which represents the American Loan Guarantee Association, a consortium of six major credit enhancers which have agreed to act in concert in dealing with Federal loan sales, continues to be interested in working with VA's vendee loans. As VA's Financial Advisor, Kidder, Peabody would again investigate the costs and benefits of obtaining external credit enhancement for a non-recourse sale. The analysis we have already done on the VA's program and portfolio and the efforts we made for VA's earlier sale would be extremely useful to the speedy development and implementation of an effective sales program for VA in fiscal year 1988.

Financial Guaranty Insurance
Company
175 Water Street
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April 13, 1987

Mr. Marvin Markus
Vice President
Kidder, Peabody & Co.,
Incorporated
10 Hanover Square
11th floor
New York, New York 10005

RE: Veterans Administration Vendee Program

Dear Marvin:

You have requested an explanation of the reasons Financial Guaranty was not able to approve insurance for a mortgage backed security secured by mortgage loans sold under the above noted program. We reviewed the issue as part of your evaluation of a bid under Notice 87-3.

The evaluation of the portfolio began with the fact that it was being sold without recourse to the Veterans Administration. Therefore, it was no longer a portfolio backed by the federal government, but was a portfolio only secured by the mortgage assets. The specifics of the mortgage portfolio became of prime importance. The initial analysis was performed assuming that the mortgage loans were originated using the same criteria as if originated under the Veterans Administration Guarantee Program. However, our due diligence determined the following about the program under discussion which differ from the Guarantee Program:

* properties are sold without appraisals at whatever the local market will bear.

* properties can be, and are, sold in disrepair with no escrow established to complete the repairs.

* properties can be, and are, investor owned.

* one purchaser of mortgage loans under the previous program stated that he believed the loans were underwritten to a more liberal standard than he is required to write to under the Guarantee Program.

Financial Guaranty Insurance
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This information was obtained in discussions with various staff members of the Veterans Administration and with previous program participants.

The only way of analyzing the credit of an issue, with knowledge of the above, is to obtain very detailed information about the portfolio prior to the bid. For example, among the types of information we would want to have are:

* the number and location of the investor owned properties.

* the number and location of the condominium units included in the portfolio.

* the value of the property according to the most recent appraisal in comparison to the purchase price of the property.

* the dates of the most recent appraisals of the properties.

* the number and location of the properties sold prior to necessary repairs being completed.

As you know, the investor community has the ability to evaluate the "standard" loan as defined by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Because of the extent of Financial Guaranty's penetration into the tax-exempt market, having insured in excess of $5 billion in par amount of single family mortgage revenue bonds, we are able to evaluate and give credit to "non-standard" mortgage loans. However, in order to do so with precision, we require the detailed information not necessary when the Veterans Administration provides recourse.

I look forward to being able to continue pursuing this type of transaction with you and Kidder, Peabody. I have enclosed some additional information on Financial Guaranty and the insurance we have written. Please let me know if I may be of any further assistance.

Sincerely,

Dana A. Cohoon
Vice President
Director of Housing

DAC:jh
Enclosure

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MEMORANDUM

TO: Kidder, Peabody & Co.

FROM: Brownstein Zeidman and Schomer

RE: Request for Proposals for Financial Advisory Services Dated October 16, 1987 from the Veterans Administration

DATE: November 18, 1987

You have asked us to address certain questions regarding potential structures of securitized non-recourse financing of the Veterans Administration's ("VA") vendee loan program.

I. Legal Structure of Financing Entity

Kidder, Peabody & Co. ("Kidder, Peabody") has under consideration several possible legal structures to facilitate the Veterans Administration ("VA") Loan Sale Project ("VA Financing"), as discussed below. Various factors and policy objectives that require further discussion between VA and Kidder, Peabody will eventually narrow the choice. Under each proposed structure, the loans to be purchased from VA ("Loans") would be purchased on a nonrecourse basis. For purposes of the Request for Proposals ("RFP"), we present a discussion of the following alternative structures:

A. Fixed Investment Trust--Pass-through Obligations

A fixed investment trust, established under state law pursuant to a "declaration of trust", may be used to issue pass-through certificates. The pass-through certificates held by the certificate holders evidence an undivided ownership interest in the trust assets and entitle each certificate holder to a pro rata portion of all items of income and expense of the trust, including payments of interest and principal on the Loans and prepayments of principal. Since the certificate holders of the trust in effect collectively purchase the trust assets, principal and interest from the Loans, net of trust expenses, are paid to the certificate holders and no residual interest in the Loans remains.

An advantage of a fixed investment trust is that, unlike a corporation, the trust itself is not subject to taxation. An entity treated as a trust under local law may, however, be taxable as a corporation under the Internal Revenue Code of 1986, as amended ("Code") if it has the attributes of a corporation. To ensure a single level of taxation (of the security holders only and not of the trust), a trust must be characterized as a trust under Code Section 7701 and not as an association taxable as a corporation for federal income tax purposes. Treasury regulations define a trust as an arrangement under which a trustee takes title to property for the purpose of protecting it or conserving it for beneficiaries. The regulations further provide, however, that a fixed investment trust will be taxable as an association if "there is power under the trust agreement to vary the investment of the certificate holders." That phrase has been interpreted to mean that the trustee may not take advantage of market variations or fluctuations for the benefit of the beneficiaries. The trustee's powers may not include "managerial" powers, although the trustee may sell trust assets. The trustee may neither substitute nor reinvest trust assets, except for reinvestment of funds in short term securities that mature no later than the next date that distributions are payable to certificate holders.

In addition, under regulations adopted by the Treasury in 1986, a fixed investment trust is prohibited from having multiple classes of securities unless the existence of multiple classes of ownership is incidental to facilitating direct investment in the assets of the trust. The rules were adopted in response to an offering by Sears Mortgage Securities Corp. of mortgage backed securities with three classes of maturities.

The key under the final regulations to taxation as a trust is the selection of the trust structure merely as a vehicle to facilitate direct investment in the assets of the trust. If the trust provides beneficiaries with economic and legal interests that they could not have acquired by direct investment in trust assets, tax treatment of the trust as a fixed investment trust is precluded. See Lore, Mortgage Backed Securities, Developments and Trends in the Secondary Mortgage Market - 1986-87 Edition at 6-10 to 6-11, Clark Boardman Company, Ltd.

The regulations permit fixed investment trusts to issue different classes of certificates but only classes that (1) differ only in the priority of payment on default or (2) represent the right to receive payment from specific assets held in trust. By providing for certificates with different priorities on default, the issuer creates, in effect, one class of certificates that is subordinated to the other class, thereby granting a limited recourse guarantee against the assets held by the trust. The regulations also permit classes of certificates to receive a payment stream from specifically identified assets.

The effect of the restrictions limiting multiple classes of securities is to reduce the number of potential investors and will affect to some extent the pricing of securities to be issued by a fixed investment trust and lessen the ability to maximize the potential value of the Loans. By issuing multiple classes of securities, issuers can restructure cash flows and create various maturities of certificates, thereby providing greater protection to investors against early redemption. Under the Treasury regulations, however, all certificates of a fixed investment trust must have the same maturity. The aggregate proceeds from the sale of participation interests in whole loans (or sale of the whole loans themselves) will generally be lower than from a structure that allows multiple classes of securities.

B. Debt Offerings - Pay-through Structure

Many mortgage backed security financings are structured as debt offerings with corporate issuers of the securities. This is true with issuers of so-called "collateralized mortgage obligations" ("CMOs") because the corporate structure is well designed to accommodate multiple classes of securities having different maturities and priorities for payment of principal and interest. Unlike the fixed investment trust, where ownership interests in the trust are sold to investors, investors in a CMO-type structure purchase a debt obligation of the issuer that is paid from the cash flow from, and secured by, assets of the issuer. This debt structure (unlike a sale) creates a residual interest in the collateral owned by the issuer that may have substantial value. The value is normally represented by and owned by the common or preferred stock of the issuer.

Unlike the "pass-through" certificates issued by a fixed investment trust, where an undivided ownership interest in the trust assets passes to the owners of the certificates, issuance of "pay-through" certificates (which commonly are divided into "fast-pay" and "slow-pay" classes having different priorities as to receipt of principal and interest) normally does not transfer ownership of the assets securing the certificates. Rather, the assets (Loans in this discussion) are pledged by the issuer to a trustee under an indenture. The transaction must be structured carefully so that the pledge of the Loans to the trustee is not deemed a sale for tax purposes, which could potentially subject the trust to taxation. For the pledge to be treated as a loan instead of a sale, the benefits and burdens associated with the Loans must remain with the issuer. In addition, the issuer must retain a residual interest in the assets. The standard typically adopted by tax counsel for issuers of mortgage backed securities is that the residual interest of the issuer in the collateral must be approximately two percent (2%) of the outstanding securities. We would anticipate that a similar requirement would apply if a pay-through type structure were used in connection with the VA Financing.

In the event Kidder, Peabody proposes that multiple classes of securities be created, some classes could be designated "senior" securities and the remainder "junior" securities. Junior securities would be subordinated to the senior securities in the event of any default in payment of principal or interest on the securities. In "pass-through" certificates, upon the default of any Loan, the senior securities would receive the proceeds, if any, collected from the security for the defaulted Loan to the extent of its percentage interest in that Loan, with the junior securities receiving the remainder, if any. In a debt structure, the cash flows from all Loans pay principal and interest on both senior and junior securities. If there were a default on one or more Loans that caused a default on payments to senior security holders, payments otherwise payable to the junior security holders would be paid to the senior security holders to the extent of any deficiency. The junior securities would in such event accrue and compound interest on any amounts not paid when due, payable whenever funds are available.

The use of a corporation as the issuer creates an additional layer of taxation that must be considered in structuring the maturities and classes of securities to be issued. Generally, a multi-class issuer anticipates little or no tax liability because the interest income it receives on the underlying collateral (the Loans) will be offset by a deduction for interest paid to certificate holders. "Phantom income" may arise, however, as a function of the differing yields on the various classes of securities issued, with the yields differing depending upon maturity. Since long-term rates generally exceed short-term rates, and since principal payments are amortized over the term of the loan, the true economic interest rate is generally slightly below the stated rate in the early years of the loan and slightly above the stated rate in the later years, which may cause some mismatching of interest income and interest deductions by accelerating income to the earlier years.

Corporate issuers of debt obligations must also be concerned with whether the securities will be recognized as its debt or its equity. If treated as debt, the issuer will have a deduction against income in an amount equal to the interest payments made to certificate holders. If, instead, the obligations were treated as equity, payments by the issuer to the certificate holders would be treated as payments of nondeductible dividends rather than as payments of interest, causing substantial corporate tax liability and reducing the return to the certificate holders. Code Section 385 provides guidance as to whether an interest in a corporation is debt or equity, but final regulations have not been adopted. The primary factor for single-purpose issuers that may cause the Internal Revenue Service ("IRS") to recharacterize bonds as equity is the size of the debt (as reflected in the debt to equity ratio), although all facts and circumstances are relevant. We would expect that the capitalization of a corporate issuer could be satisfactorily handled through adequate overcollateralization of the Loans.

C. Owner's Trust

A so-called "owner's trust" structure may be used as a financing vehicle to issue multi-class securities. Unlike a fixed investment trust, an owner's trust is structured to carry on a business. Moreover, unlike a fixed investment trust, which in effect sells undivided interests in the Loans to the investors through pass-through certificates, holders of owner's trust obligations (the certificate holders) loan funds to the trust (similar to a corporate financing) and receive distributions from the trust assets that secure the loan. As with a corporate issuance of CMOs, a residual interest in the loan collateral remains and is represented, not by stock, but by the "equity" interest in the trust. The residual interest is held by the owners of the owner's trust.

An owner's trust is a trust under state law but is generally not taxable as a trust under the Code. Common law trusts may be taxed under the Code as either a trust, partnership or corporation, depending upon which entity it most closely resembles. If treated as an association taxable as a corporation, the income of the trust would be subject to two levels of taxation (at the owner's trust level and at the certificate holders' level), as discussed in the prior section in connection with corporations. Tax status depends upon an analysis of the following factors: (1) the presence of associates, (2) an objective to carry on a business and divide the gains, (3) continuity of life, (4) centralized management, (5) limited liability and (6) free transferability of interests.

We would expect that an owner's trust would be structured as a business trust taxable as a partnership under the Code. Partnership characterization is advantageous in that, unlike a corporate structure, there is only one level of taxation. The owners of the trust would be taxed as partners in a partnership while the owner's trust itself would not be subject to taxation. To achieve partnership status under the Code, the owner's trust must have at least two owners at all times and have the objective to carry on a business and divide the gains. In addition, the owners of the trust must assume personal liability for the liabilities of the owner's trust. The potential liability to the owners is a direct function of the ability of the trust's assets to pay the obligations owing to the certificate holders. Finally, either restrictions must be placed on the ability of the owners to transfer their interests or the owners must be given broad management powers over the activities of the owner's trust.

The residual interest in the owner's trust would be in effect an ownership interest in the trust's assets remaining after all principal and interest on outstanding securities have been paid. The residual interest represents the remaining amounts of collateral owned by the trust that were purchased from VA. The value of the residual interest will depend upon a number of factors, including the initial overcollateralization of the trust, prepayment experience, reinvestment income and excess amounts retained by the trust from prepayments of loans held by the trust. An owner's trust structure has become popular in that it allows the issuer to sell its residual interest and thus remove debt from its books. Federal securities law imposes restraints on the disposition of residual interests, since these interests are substantially different from the securities registered for sale. Where the issuer has obtained an exemption from the Investment Company Act of 1940 ("1940 Act") pursuant to Section 6(c) thereof, as discussed below, the issuer must comply with conditions and restrictions on the transfer of the residual interest that will be imposed by the SEC's Division of Investment Management.

D. Tax-Exempt (Nonprofit) Corporation

We have explored the possibility of forming a tax-exempt, nonprofit corporation or trust under Code Section 501(c)(3) to issue the securities backed by the Loans. Our preliminary analysis indicates that a charitable purpose of lessening the burdens of the United States government by raising money would qualify as a proper purpose under Code Section 501(c)(3). A private letter ruling from the IRS advising the corporation of its tax-exempt status is required and normally takes from three to six months to obtain. We have had extensive discussions with the IRS on this issue. While this approach was explored and later abandoned with Farmers Home in the Community Program ("CP") and Rural Housing Trust sales, it may be possible to receive necessary IRS rulings within the required time period if an accelerated review procedure can be obtained, since the IRS is familiar with the issue. As a nonprofit corporation or trust, none of its earnings may inure to private individuals.

The nonprofit corporation or trust, would purchase the Loans at an agreed upon price. It would then sell interests in the Loans in either "pass-through" or "pay-through" certificates, possibly with senior and junior securities, all as described above, with terms and provisions to achieve the best net price for VA. VA would be the beneficiary of the trust (or the beneficial owner of the trust treated as a corporation).

The tax-exempt structure, if feasible, eliminates many of the tax and securities issues that arise in the context of taxable entities. Since the issuer would not be subject to taxation, concerns regarding phantom income and characterization of debt as equity are substantially reduced. Tax concerns on the certificate-holder level would not be changed.

E. REMIC (Real Estate Mortgage Investment Conduit)

The Tax Reform Act of 1986 authorized a new vehicle, called a REMIC, for the issuance of mortgage backed securities. REMIC status is elective until 1992. A REMIC is not limited to any structure but may take the form of a trust, partnership, or corporation. Even a specifically identified, segregated group of assets may qualify as a REMIC. It is a creature of tax law designed to issue multi-class securities without federal tax obstacles that issuers have faced in issuing multi-class securities. An advantage of a REMIC structure is that REMIC interests are qualified assets for a broad range of investors, enhancing the marketability of the interests.

For tax purposes, the transfer or segregation of mortgage loans into a REMIC is not recognized as a sale, but the sale of the REMIC interests to investors triggers the recognition of income for the transferor of the mortgage loans to the REMIC. A REMIC is not a taxable entity. Instead, income is taxed to the REMIC holders. A REMIC does not eliminate the "phantom income" problem discussed above, however, such income will be taxed to the residual interest holders of the REMIC instead of to the issuer.

REMIC interests may be either debt or equity for state law purposes, allowing the issuer either to issue pass-through certificates or to restructure cash flows to maximize yield curves in pricing and provide for different maturities of instruments. REMIC interests must be of two types: regular interests and residual interests. Regular interests, of which there may be multiple classes, must be issued with a stated interest rate (variable rates are permitted on interests issued after June 15, 1987, if they satisfy requirements set forth under Treasury regulations) and a stated principal amount. For tax purposes, all regular interests are treated as debt obligations. A residual interest, of which there may be only one class, is any interest that is not a regular interest. Unlike residual interests in other structures, residual interests in a REMIC may be sold to other parties, subject to federal securities law restrictions likely to be similar to those imposed on the owners' trust, as discussed above.

An important advantage to a REMIC structure is the ability to use a "senior/subordinated" structure to provide the necessary credit enhancement (without limiting the transferability of the residual interest) to assure payment of the securities, rather than through an external third party guaranty. Some type of credit enhancement is necessary to have the securities rated (and thereby maximize the proceeds from the sale of the mortgage loans), and the senior/subordinated structure with or without a credit overlay on the senior portion is likely to be the most cost effective means of credit enhancement. This structure was utilized by the Rural Housing Trust 1987-1 in connection with the Farmers Home § 502 sale in fiscal year 1987.

In order to qualify as a REMIC, substantially all of the REMIC's assets must consist of qualified mortgages and permitted investments. A qualified mortgage includes any obligation that is principally secured by an interest in real property and that is transferred to the REMIC on the startup day or purchased by the REMIC within the three-month period beginning on the startup day. An issue that arises with respect to the VA Loans is whether the Installment Contracts for Sale of Real Estate entered into by and between VA and the buyer ("Installment Contracts") constitute "qualified mortgages" under the REMIC provisions. We have discussed this issue with IRS personnel who have given us their verbal preliminary opinion that the Installment Contracts are "qualified mortgages" so long as under state law they are considered to be secured by real property. Taxpayers cannot rely on verbal statements made by IRS personnel and we are continuing to analyze this issue. If a REMIC structure were to be selected, a private letter ruling relating to the classification of the Installment Contracts could be requested from the IRS.

It should be noted that the proposed Technical Corrections Act of 1987 would impose a tax on REMICs, if a residual interest in the REMIC is held by any federal, state or local agency such as VA and there is a nontaxable excess inclusion. In essence, an excess inclusion arises if the return to a residual interest holder is greater than 120 percent of the long term applicable federal rate or if the residual does not have significant value. Because VA is not subject to federal income taxation, any excess inclusion accruing to it as a residual interest holder would be nontaxable.

So long as the residual interest does not give rise to income that is in excess of a cumulative imputed rate of return of 120 percent of the long term applicable federal rate, nontaxable excess inclusions are likely to arise only if the residual interest does not have "substantial value." The IRS has yet to publish definitive rules regarding the meaning of "substantial," but it is anticipated that the value of a residual interest will be treated as substantial only if it is at least 2 percent of the combined value of the residual and regular interests in the REMIC. Taxation of the REMIC would result in a reduced yield to regular interest holders. Discussions with Congressional aides have indicated that a final decision as to the treatment of residual interests retained by a federal agency has not been made.

F. Registered Investment Company

A registered investment company ("RIC") established under state law pursuant to a declaration of trust, may be used to issue debt obligations secured by the Loans. As with a corporate issuance of CMOs, a residual interest in the Loan collateral remains, but is represented, not by stock, but by the equity interest in the RIC. This residual may have substantial value.

Although the RIC would be formed as a business trust under state law to comply with 31 U.S.C.S. § 9102 (see discussion below), it would be structured under the Code to be taxed as an association taxable as a corporation. As noted above, in order to ensure corporate status under the Code, five of the following six factors would have to be present: (1) the presence of associates, (2) an objective to carry on a business and divide the gains, (3) continuity of life, (4) centralized management, (5) limited liability and (6) free transferability of interests.

The RIC could issue "pay-through" bonds similar to those described above under the discussion of "Debt-Offerings - Pay-Through Structure." The investors would loan funds to the RIC in exchange for a bond of the RIC. The cash flow from the assets of the RIC (primarily the Loans and earnings on the Loans) would be used to repay the bonds. The bonds may be divided into "fast-pay" and "slow-pay" classes having different priorities as to receipt of principal and interest. Some classes may be divided into "senior" and "junior" securities where the "junior" securities are subordinated to the "senior" securities in the event of any default in payment of principal or interest on the securities. Certain SEC exemptions, as described below, would be required for the bond structure.

An advantage to using a RIC as the issuer is that a RIC is taxable only on the portion, if any, of its taxable income that is not distributed to its shareholders as dividends. During a taxable year, a RIC must distribute as taxable dividends (other than capital gains dividends) to its shareholders at least 90 percent of its investment company taxable income exclusive of net capital gains (and before the dividends paid deductions) and at least 90 percent of its net income, if any, from tax-exempt securities. If this requirement is not satisfied, a RIC will pay a tax on the undistributed portion of its ordinary net income at the regular corporate rate plus a tax on the undistributed portion of its net long-term capital gains.

Under the Code, a RIC must be a domestic corporation that is registered with the Securities and Exchange Commission throughout the taxable year under the Investment Company Act of 1940. In addition, at least 90 percent of its gross income must be derived from dividends, interest and other specified items of income. Gains from the sale or other disposition of stock or securities held for less than three months must constitute less than 30 percent of its gross income (Legislation currently being considered by Congress would delete this requirement.).

A RIC also must satisfy two diversification tests. At least 50 percent of the value of its total assets must be represented by cash and cash items (including receivables), government securities, securities of other RICs, and securities of other issuers as to which the investment in the securities of any one issuer is limited to an amount which does not exceed in value 5 percent of the value of the taxpayer's total assets, and, in voting power, 10 percent of the outstanding voting securities of the issuer. In addition, investments in the security of any one issuer (except other RICs or government securities) may not exceed 25 percent of the value of the taxpayer's total assets.

It is likely that more than 50 percent in value of the RIC's assets will consist of the Loans. Therefore the diversification tests can be satisfied only if the Loans are "securities" for purposes of Code Section 851. Neither Code Section 851 nor the regulations promulgated thereunder define the term "security." In order to ensure that the Loans are "securities" for purposes of Code Section 851, a private letter ruling from the IRS should be obtained. In the absence of expedited treatment, it will take from three to six months to obtain a ruling.

As noted above, at least 90 percent of the assets of a RIC must be derived from specified sources of income. The Installment Contract specifies that payments made by the buyer will consist of principal and interest components. So long as the Code will characterize these payments in the same manner, payments under the Installment Contracts will satisfy the 90 percent asset test. If, however, the payments were to be treated as rent, the number of Installment Contracts that could be sold to the RIC would be limited to ensure compliance with the 90 percent test.

II. Securities Law Status

A. 1933 Act Registration

Securities backed by the Loans would be required to be registered under the 1933 Act, unless an applicable exemption applied. Exemptions are available for private placements. The most commonly utilized exemption for an offering backed by the Loans is the private placement exemption under Section 4(2) of the 1933 Act and Rule 506 thereunder. Rule 506 allows offerings to up to 35 non-acredited investors and an unlimited number of accredited investors (defined generally to include individuals who meet certain net worth or income standards and organizations which purchase large blocks of securities). The chief drawback to a Section 4(2) or Rule 506 private placement is that investors who purchase securities in a private offering own "restricted securities" which cannot be resold absent registration or an exemption therefrom.

Although the registration process requires filing documents with the staff of the Securities and Exchange Commission, if registration is required, we do not anticipate any particular obstacles that would interfere with the transaction. We anticipate that a "shelf" registration statement could be filed pursuant to Rule 415 to allow periodic sales of subsequent series of securities without registering each series with the SEC.

We believe that an entity holding the Loans would qualify for an exemption under the Investment Company Act of 1940 pursuant to Section 3(c)(5)(C). Section 3(c)(5)(C) exempts from 1940 Act registration certain issuers that are primarily engaged in "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." The staff of the Securities and Exchange Commission has confirmed on several occasions that the Section 3(c)(5)(C) exemption will be available to issuers who invest at least 55 percent of their assets in mortgages or certificates backed by whole pools of mortgages. The exemption, therefore, should be available even if the staff determines that the loans secured by installment sales contracts are not "mortgages" (see discussion of "Mortgage Related Securities," below) or "interests in real estate," unless such Loans comprise in excess of 45 percent of the principal amount of Loans sold.

B. 1940 Act Registration

The offering could be registered under the 1940 Act. This strategy was employed in the sale of loans by the Department of Education under the College Housing Loan Program. Registration under the 1940 Act automatically subjects an issuer to a series of detailed regulations which govern the management and operation of registered investment companies. Since many of these 1940 Act provisions would be incompatible with the structure and contemplated operation of an entity formed to hold VA loans, we anticipate that it would be necessary to seek an exemptive order from the SEC pursuant to Section 6(c) of the 1940 Act. In requesting the order, the issuer would seek relief from a number of 1940 restrictions, including (i) certain affiliation restrictions applicable to registered investment companies, (ii) restrictions on issuing multiple classes of securities, and (iii) certain requirements respecting voting rights of certificateholders. We believe that the SEC would be disposed to grant this relief.

C. Mortgage Related Securities

Shelf registration is permitted only when the securities constitute "mortgage-related securities" within the meaning of Rule 415. If the securities are "mortgage-related", they will also be entitled to the benefits of the Secondary Mortgage Market Enhancement Act of 1984 ("SMMEA"), which preempts certain state securities registration requirements and other state laws which restrict the ability of certain institutional investors to purchase mortgage-backed securities.

In determining whether an issue is mortgage related for purposes of Rule 415, the staff of the Securities and Exchange Commission looks to the statutory definition of the term which was added by SMMEA and is found in Section 3(a)(41) of the Securities Exchange Act of 1934, as amended. The fact that many of the Loans are documented by installment sales contracts raises some novel issues with respect to whether the securities are "mortgage-related." The language of Section 3(a)(41), for example, refers only to securities which represent ownership of or are secured by "promissory notes or certificates of interest or participation in such notes." In addition, the statute requires that such promissory notes be "directly secured by a first lien on a single parcel of real estate." We understand that many of the Loans are made pursuant to installment sale contracts and that the obligation to pay the purchase price is not evidenced by a promissory note. As is more fully discussed below under "State Laws Affecting Installment Contracts," moreover, under state law, land sale contracts are viewed for some purposes as mortgages and for other purposes as contracts with wide variations in interpretation from state to state. It is possible therefore that the SEC would determine that the securities backed by the Loans are not mortgage-related either because the land sale contract is not a "lien" within the meaning of Section 3(a)(41) or because the Loans are not evidenced by promissory notes.

As a means of resolving this uncertainty, we anticipate that a "no-action letter" would be filed with the SEC pursuant to which the staff would be asked to concur with counsel's opinion that the securities are mortgage-related. Although the Loans do not fall within the literal statutory definition, the SEC staff, in responding to another no-action request filed on behalf of the Rural Housing Trust, 1987-1, the entity formed to offer interests in the Farmers Home Administration Section 502 rural loan portfolio, has shown flexibility in interpreting the definition in order to afford the benefits of shelf registration and SMMEA to offerings backed by federal loans.

III. Certificate Holder Tax Issues

A. Original Issue Discount

Securities could be issued with original issue discount. In general, certificate holders who use the cash method of accounting take an item, such as interest, into income only when it is actually or constructively received. However, any income accruing on a debt instrument must be recognized currently to the extent of any original issue discount. Original issue discount means, in general, the excess (if any) of the stated redemption price at maturity over the issue price. In general it equals the difference between the principal amount of the certificate and its issue price. Original issue discount may also arise if there is accrued but unpaid interest. Certificate holders would be required to include original issue discount in ordinary gross income for Federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income.

B. Market Discount

Certificates may be subject to the market discount provisions of Code sections 1276 thru 1278. Under these rules, if a subsequent holder of a certificate purchases that certificate at a market discount, some or all of the gain realized on the disposition of such certificate, with certain non-recognition exceptions, will be recognized. Market discount means the excess, if any, of the certificate's stated redemption price at maturity over the basis of such certificate immediately after its acquisition by the certificate holder.

IV. Efficiency of Structure

The proposed sale and financing with respect to the VA Loans should be made as efficient as possible in order to maximize the return to the government. Structural requirements generally necessary to meet tax law, securities law and rating agency (and or credit enhancement) requirements can result in certain inefficiencies in the transactions. It is of course desirable to structure the financing to avoid these problems and prevent the so-called "leakage". Leakage occurs, in part, due to the pledge or provision of additional assets to collateralize the transaction. Therefore, after-tax payments and remaining assets will accrue to parties other than the government. As we have discussed, a corollary political policy concern is to determine who the beneficiary of the leakage will be. This is an important issue because excess assets are being created.

Leakage arises from three separate sources: phantom income, market discount, and capitalization requirements. It occurs as a result of taxes the issuer or other parties are required to pay on phantom income and market discount and from the need to maintain funds to capitalize the issuer. Failure to capture certain residuals (a form of leakage) can occur if the transaction is not structured with an eye toward maximizing capture of such residuals. Appendix A to this memorandum discusses some issues relating to maximizing residuals.

The principal areas of leakage are described below. Careful analysis of competing concerns will lead to the selection of a structure that will minimize the leakage. Kidder Peabody found the REMIC to be the most efficient structure in the Farmers Home Rural Housing Trust transaction. However, under some circumstances, tax-exempt issuers and RICs provide comparable protection from leakage.

A. Phantom Income

So-called "phantom income" is income which results from the differing yields on investments of differing maturities of debt and underlying collateral and arises when a stream of income from single-class instruments such as mortgages or other loans is used to pay debt service on multi-class securities such as multi-class mortgage pay-through bonds. The issuer has income equal to all interest received on mortgages it holds but has deductions only for interest paid or accrued for the same year. Using a portion of the interest income received on the mortgages to pay off nondeductible principal, rather than deductible interest, on obligations of the issuer results in an interest deduction that is less than the interest income recognized by the issuer. Thus, the issuer has taxable phantom income.

While there is taxable income, funds may not be available to pay the taxes since the issuer has used a portion of the interest income it received to make principal payments. Although such income is offset in later years by an equal amount of phantom loss, the timing differential is significant to issuers which are required to pay income taxes on income that is only an accounting phenomenon. Accordingly, if there is phantom income, a tax-paying issuer must have available excess funds to pay the taxes. The rating agencies require reserves that are sufficient to pay taxes that are due in the year the phantom income is recognized. Given the uncertain nature of tax legislation, it is impossible to predict either the rate of taxation or the amount subject to taxation. As a result of this uncertainty, excess reserves must be created to pay taxes. The funds could otherwise have been used to support additional debt or otherwise resulted in more capital raised.

Leakage arising from phantom income will be eliminated or reduced if the issuer is a tax-exempt entity, a RIC or (subject to the proposed REMIC legislation described above) a REMIC where the federal government or an agency of the federal government holds the residual interest. Although there will be phantom income under these structures if multi-class securities are issued, the issuer will not be subject to the tax. Tax-exempt status precludes taxation of issuers exempt from tax under Code section 501(c)(3). If a RIC is selected as the issuer, it will not be subject to taxation so long as it distributes as dividends to its shareholders the required amount of its investment company taxable income.

Under the REMIC structure, phantom income is termed "excess inclusions" and is taxable to the residual interest holders. If the federal government or an agency thereof holds the residual interest, it would not be taxed on the phantom income since it is not subject to taxation. As noted above, although VA (as the residual interest holder) would not be subject to taxation, legislation currently under consideration by Congress would impose a tax on REMICs if a federal agency holds the residual interest and there are excess inclusions.

B. Market Discount

Market discount arises whenever the price paid for a debt instrument (including mortgage loans) is less than that instrument's stated price at maturity. For example, if a purchaser pays $1 billion for $1.3 billion face amount of loans, there is taxable market discount income in the amount of $300 million. If the issuer acquires the mortgages at a discount, market discount income will be present. If, however, a tax-exempt issuer is used, the discount income is not taxable to the issuer. If a RIC is selected as the issuer, it will not be subject to taxation so long as it distributes as dividends to its shareholders the required amount of its investment company taxable income. If a REMIC is the issuer, the issuer is not taxed, but market discount is includible in the income of the residual interest holder.

If the REMIC is a tax exempt issuer, the holder of the residual interest in the REMIC will recognize the market discount income (unless the holder is the federal government). We would therefore want to consider a non-REMIC structure if the issuer is a tax exempt entity since the incidence of taxation will remain with an issuer not subject to taxation. Not having the tax liability may make the investment more attractive to investors.

An issuer that is required to recognize market discount income will not have a corresponding interest deduction in an amount equal to the recognized income. In most of the proposed structures, the issuer borrows funds to acquire the market discount obligations (the Loans). Under these circumstances, Code Section 1277 limits the amount of interest deductions the issuer may take until there is a disposition of the bonds. There is, accordingly, more income than deductions.

Leakage arising as a result of market discount can also be solved in another manner. Market discount would not occur if the VA Loans had the same basis in the hands of the issuer that they had when held by VA. This result can be achieved by having VA transfer the Loans to the issuer in exchange for cash and certificates of beneficial ownership in a transaction qualifying under Code Section 351. There is an issue under such structure as to whether VA can sell the residual immediately after the transfer and still qualify the transaction under Code Section 351. Code Section 351 requires the transferor to have control of the entity immediately after the transfer. An immediate sale may cause the IRS to rule that the control requirement is not present. A ruling from the IRS should be obtained in the event this structure is utilized requesting a holding that the transaction qualifies under Code Section 351 and that the issuer will have a carryover basis in the Loans. A similar ruling was received in connection with the Farmers Home CP sale. It normally takes from three to six months to receive a private letter ruling. Accordingly, assistance will be necessary to expedite the request.

C. Capital Requirements

Under a non-REMIC CMO debt structure, the issuer must satisfy minimum capitalization requirements to ensure that the CMOs will be treated as debt, rather than equity, of the issuer for federal income tax purposes. Current practice requires approximately a 2 percent capitalization. By definition, this means that there is a 2 percent leakage to some private entity unless a tax-exempt issuer is used or the residual otherwise passes to the federal government. The potential loss to the federal government can be significant. In a $100 million issuance, the issuer must have a minimum capitalization of $2 million. A structure must insure, as much as possible, that this amount accrues to the benefit of the federal government.

If a CMO is treated as debt, the issuer would have a deduction against income in an amount equal to the interest payment. If, instead, the obligation were treated as stock, payments by the issuer to the investors would be treated as payments of dividends rather than payments of interest. Because a corporation or a trust taxed as a corporation that has not elected RIC status is not permitted a deduction for dividends paid to its shareholders, a non-RIC corporate issuer would be subject to an increased corporate income tax reducing amounts available to pay CMO holders. Moreover, the same income would again be subject to taxation when received by investors in the form of dividends (assuming that they are not corporations eligible for a dividends received deduction).

Characterization of amounts received as interest, rather than dividends, is significant for foreign investors since they are not subject to the 30 percent withholding tax on portfolio interest. No such exclusion exists, however, for dividend income. It is, accordingly, important to ensure debt characterization if the investment will be marketed overseas. This is an issue only in a non-REMIC structure since income received by foreigners from REMIC regular interests (including those in pass-through form) generally will be free from withholding tax.

While recharacterization of interest payments as dividends would not create double taxation concerns if a RIC satisfying the minimum dividend distribution requirement is selected as the issuer, the RIC would be required to have an adequate residual to ensure that the pledge of Loans in a CMO transaction is not treated as a sale of the Loans.

Under current law, capitalization requirements are not an issue with a REMIC. (If, however, the residual interest does not have significant value, thrifts holding a residual interest will be unable to use loss carry forwards and all income received by a tax-exempt holder of a residual interest will be subject to the unrelated business taxable income.) Regular interests in a REMIC are treated as debt instruments without regard to capitalization. Double taxation would not arise for a tax exempt entity (even in a non-REMIC transaction) because the issuer is not subject to tax. Accordingly, there would be no reduction in amounts available to pay CMO holders solely because of the need to maintain this minimum capitalization level.

The proposed REMIC legislation described above brings in issue the capitalization requirements of a REMIC where the residual interest is held by a governmental agency. Under this circumstance, it may be necessary to provide higher capitalization in order to ensure that the residual interest has significant value (i.e. that the value of the residual interest is at least 2 percent of the combined value of the regular and residual interests).

V. Form of Issuer

Under 31 U.S.C.S. § 9102, an agency may establish or acquire a corporation to act as an agency only by or under a law of the United States specifically authorizing the action. The law does not set forth what is intended by the phrase "act as an agency." This law may preclude use of a corporate issuer in any structure where VA itself transfers the Loans to the issuer in exchange for cash and an equity interest. Since 31 U.S.C.S. § 9102 does not appear to apply to the establishment or acquisition of trusts, it would appear that VA may directly transfer the loans to a trust in exchange for cash and certificates of beneficial interest. Alternatively, the loans can be sold to a third party who then transfers them to an issuer. A trust may be used under both REMIC and non-REMIC structures. In addition, if a REMIC is elected, it may be structured as a separate accounting entry and, thus, eliminate the corporate issuer problem.

It should be noted that for federal income tax purposes, a trust may be taxed as a trust, partnership or corporation. Structuring an entity to qualify as a trust under state law and to qualify as a corporation under the Code would enable VA to retain a residual interest while ensuring that the most efficient vehicle is used to issue the securities.

VI. State Laws Affecting Installment Contracts

Installment contracts are a method of transferring an interest in real estate whereby a seller contracts with a purchaser to deliver a deed to property at a specific time in the future. The purchaser pays regular installments of principal, with interest thereon, until such time as the purchase price is paid in full and the seller is obligated to deliver the deed. Sellers of property by installment sales contracts retain title until the transfer of deed; however, most installment sales contracts contain clauses requiring purchasers to pay taxes and insurance and maintain the property.

In the event of default by a purchaser under an installment contract, the seller has the option to (i) renegotiate the terms of the contract, or (ii) disposes the purchaser and retain title to the property. Many installment contracts (including those used by VA) provide that in the event of default, a seller may terminate all of the purchaser's right, title and interest in and to the property, and the purchaser is required to surrender possession of the property to the seller. In such event, the seller may treat prior payments of principal and interest as liquidated damages or rent. This method affords the seller the opportunity to resell the property and retain the entire purchase price in contrast to a foreclosure sale where proceeds in excess of the outstanding principal balance plus collection costs must be paid over to the defaulting purchaser. Although these terms are expressly set forth in the installment contract, many courts have refused to enforce these provisions as inequitable forfeitures, most often where a significant proportion of the purchase price has previously been paid by the purchaser. Purchasers who do not wish to abandon the property may claim an equitable interest in the property, thereby clouding title and preventing the seller from selling the property to obtain the purchase price.

The alternative remedies available to sellers under installment contracts exists because an installment contract may be interpreted either as a contract or as a mortgage. If the installment contract is considered a contract, the seller may elect to sue the buyer for damages resulting from his breach. If the installment contract is deemed a mortgage, the seller may bring a foreclosure sale in accordance with state law and sell the property, in which event the surplus proceeds above the outstanding principal balance will be paid to the purchaser. Another remedy is rescission of the contract, in which case the contract is declared null and void by request of both parties, with seller retaining title to the property but forgiving claims for damages.

Most of the issues presented above are regulated by various state laws. A survey of state law would be required for a complete analysis. However, the basic security concerns of a lender/seller in the area of installment contracts is the ability of a defaulting purchaser to cloud title and postpone the sale of the property, thereby creating uncertainty with respect to the lender/seller's ability to obtain timely and complete recovery of the contractually established purchase price.

VII. Conclusion

REMIC, RIC and tax-exempt issuer structures seem to solve the most significant sources of leakage. If the tax-exempt issuer route is selected, a ruling from the IRS would be required. Although lessening of the burdens of Government is a valid purpose for tax exemption, there is the possibility that the IRS would not grant the exemption. In addition, since it normally takes from three to six months to receive a private letter ruling from the IRS, assistance will be necessary to expedite any such ruling request. We believe this may be possible.

A REMIC structure without a non-profit is an attractive choice (subject to concerns regarding the proposed new REMIC legislation described above). The residual interest may be held by the federal government, enabling it to take advantage of its value. Although phantom income and market discount would be realized by the federal government, it would not be recognized since the federal government is not subject to taxation. Capitalization requirements generally would be eliminated. In contrast to a non-REMIC owner's trust structure, the residual interest holder would not have to assume personal liability.

A RIC structure should be considered. A RIC issuer is not taxed on market discount and phantom income so long as it satisfies the minimum dividend distribution requirements. In addition, the capitalization issue is not as significant a problem with a RIC as it is with issuers subject to the corporate income tax since RICs receive a deduction for dividends paid. A residual is required, however, to ensure loan rather than sale treatment on the pledge of the Loan collateral in a CMO transaction. If a RIC structure were selected, a ruling from the IRS should be obtained to ensure that the Loans are "securities" and that the diversification requirements are satisfied. Ongoing compliance with the asset and diversification tests also will be required. It is important to recognize that a RIC is exempt from corporate income taxation only if it makes required distributions. If the distribution cannot be made, the RIC will be subject to the corporate tax on the portion of its income that is not distributed.

Issuance by a tax exempt entity would also appear to be an attractive choice, if an IRS ruling can be obtained (which is by no means a certainty), because it clearly would eliminate phantom income concerns and market discount liability without the need for an IRS ruling regarding a tax-free transfer to the issuer, would alleviate capitalization requirements and would permit the transfer of proceeds arising from residual interests to the government.

While the impact of the market discount rules could possibly be handled more effectively in a non-REMIC CMO type owners trust, we believe the immediate sale of the residuals in that case could cause problems. As described above, the market discount problem is eliminated if there is a transfer to a trust taxable as a corporation that qualifies under Code Section 351.

We are aware that eliminating the sources of leakage is but one of the important factors to be analyzed in deciding upon the ultimate structure to be used, and a final recommendation will be made only after all factors particular to the Loans have been reviewed.

Philip N. Brownstein
Kenneth G. Lore

APPENDIX A

The residual interest in a transaction has significant potential value. A residual interest holder's revenues arise from a variety of sources, including (i) the differential between rating agencies' prepayment and reinvestment rate assumptions and the actual rates, (ii) the rate of prepayments, (iii) reserve funds not required to pay costs and (iv) overcollateralization. If a tax-exempt issuer is used, we anticipate that the structure will assume that the residual of the issuer would be donated to the federal government. The REMIC, on the other hand, which for state law purposes is a trust or a separate accounting fund, may be structured to give the federal government a residual certificate as partial consideration for VA's sale of the mortgages.

Under a traditional owner's trust structure (or a REMIC structure) residual interests may be sold to third parties with the proceeds going to the federal government. Alternatively, VA, itself, could transfer the Loans to a trust and retain the residual interest, but this structure is likely to be acceptable only where there is no requirement for personal liability to the holder of the residual interest (therefore requiring a REMIC or RIC structure). It may also be possible to have VA transfer only a senior participation interest in its Loans to the issuer, however, the problem with selling the residual interest is that it is likely that the price obtained for the residual will be deeply discounted -- even more than normal CMO residuals. This is because the risks, and therefore the value of the residual, are considerably greater than in a normal CMO. The risk of prepayment is different than with a normal CMO because the Loan profile is likely to be different. Most significant, however, is the fact that the risk of loss associated with these underlying mortgages is much greater than in a typical CMO and to a great extent is unknown.

1615k

CHART ILLUSTRATING CHARACTERISTICS OF VARIOUS ENTITIES FOR VA FINANCING

CHARACTERISTICS

TYPE OF ENTITY	Taxation of Security Holders	Taxation of Entity	Restructure Cash Flows	Substitution of Loans	Multiple Classes of Securities	Disposition of Residual Interest	Capitalization	Phantom Income	Registration (or exemption therefrom) Required by Federal ** Securities Laws	Additional Parity Obligation
Fixed Investment Trust	Yes.	No.	No. Pass-through Certificates with same terms and maturities must be issued, except different priorities on default.	No.	No, limited to different priorities upon default and payment from specifically identified Loans.	No residual interest.	None required.	No.	Yes, under 1933 Act. 1940 Act does not apply.	No.
Corporation (debt structure)	Yes.	Yes, although matching of income and interest expense minimizes taxation. Usually have "phantom income."	Yes.	Yes.	Yes.	Federal tax law requires the retention of some residual. Excess may be disposed of by debt financing or contractually but restricted by federal securities law.	Yes. Up to 2% of principal amount of securities issued. Over collateralization through loans permitted.	Yes.	Yes, under both 1933 and 1940 Acts. ('40 Act exempt)	Yes.
Owner's Trust (debt structure)	Yes.	No.	Yes.	Yes.	Yes.	Yes, as limited by federal securities laws and trust restrictions.	Yes.	Yes.	Yes, under both 1933 and 1940 Acts. ('40 Act exempt)	Yes.
Non Profit Issuer*	Yes.	No.	Yes.	Yes.	Yes.	Federal tax law requires the retention of some residual. By contract, residuals will go to U.S.	Required, but the amount may be reduced.	There is phantom income but it is not taxable to the nonprofit entity.	Yes, under 1933 and 1940 Acts. ('40 Act exempt)	Yes.
REMIC	Yes.	No.***	Yes.	Only within first 3 months, but within a 2-year period for defective Loans.	Yes.	Yes, as restricted by federal securities laws.	None for issuer purposes, but 2% of combined value of residual and regular interests for residual interest tax savings.****	Yes, taxed to holder of residual interest.	Yes, under 1933 Act. 1940 Act. ('40 Act exempt)	No.
Registered Investment Company (debt structure)	Yes.	No, if it makes minimum dividend distribution.	Yes.	Yes.	Yes.	Federal tax law requires the retention of some residual. Excess may be disposed of by debt financing or contractually but restricted by federal securities law.	Required to ensure debt treatment.	Yes, but entity not taxed if makes minimum dividend distribution.	Yes, under 1933 Act and 1940 Act.	Yes.

* If a non profit issuer elects REMIC status, it will have the same characteristics as a REMIC.

** Exemptions are available from the '40 Act to the extent approximately 60% of the issuer's assets represent whole pool mortgage loans.

*** Proposed legislation may impose tax if residual interest is held by VA and there are nontaxable excess inclusions.

**** Under proposed legislation, 2% test would prevent taxation of REMIC if residual held by VA (so long as there is no excess inclusion by reason of 120% test).

Prospectus

$2,375,133,000
Rural Housing Senior Mortgage Pass-Through Certificates

Rural Housing Trust, 1987-1, Seller

This Prospectus relates to $2,375,133,000 aggregate original principal amount of Rural Housing Senior Mortgage Pass-Through Certificates (the "Senior Certificates") which will be sold from time to time on or before September 30, 1987 in one or more Classes on terms described in the related Prospectus Supplement. The Senior Certificates evidence beneficial ownership interests in the Rural Housing Trust, 1987-1 (the "Trust") which will be comprised of residential mortgage loans (the "Mortgage Loans") sold to the Trust by the Farmers Home Administration ("Farmers Home") pursuant to the requirements of Section 2001(a) of the Omnibus Budget Reconciliation Act of 1986, which directs Farmers Home to sell mortgage loans out of its portfolio to raise sufficient funds to reduce net federal outlays by at least $1.715 billion in fiscal year 1987. The Mortgage Loans were made by the United States Secretary of Agriculture acting through Farmers Home under Section 502 of the Housing Act of 1949, as amended (the "Act"), primarily to low- and moderate-income borrowers (the "Borrowers"), generally for the purchase or construction of owner-occupied rural housing. See "Characteristics of Section 502 Mortgage Loans" herein.

A Class of Senior Certificates may have identical terms and provisions or may be divided into two or more Sub-Classes having different terms and provisions. The Senior Certificates of each Class will evidence beneficial ownership of specified amounts of future interest and principal payments on the specific Mortgage Loans allocated to such Class of Senior Certificates (a "Mortgage Loan Group"). Beneficial ownership of the remaining future principal and interest payments on the Mortgage Loans in each Mortgage Loan Group will be evidenced by two classes of Rural Housing Subordinate Mortgage Pass-Through Certificates (the "Subordinate Certificates"), distributions on which are subordinate to distributions due on the Senior Certificates to the extent described herein. See "Description of the Certificates—Subordination of the Subordinate Certificates." Only the Senior Certificates will be offered hereby and by the related Prospectus Supplements. (The Senior Certificates and the Subordinate Certificates are sometimes referred to collectively herein as the "Certificates.")

In the event losses are realized on the Mortgage Loans in a Mortgage Loan Group, holders of Senior Certificates in the related Class will be entitled to receive current and, through a shifting interest subordination feature described herein, possibly future distributions otherwise payable on the Subordinate Certificates to the limited extent and in the manner set forth herein. The Senior Certificates of each Class will also have the benefit of certain cross support features described herein, the effect of which is to link, from a credit perspective, the Mortgage Loans in all Mortgage Loan Groups and their related Classes of Senior Certificates. In addition, the holders of the Senior Certificates may also be covered by one or more Certificate Guaranty Insurance Policies to the extent set forth in the Prospectus Supplements. See "Description of the Certificates" herein.

The Mortgage Loans and certain other assets described herein will be held for the benefit of the holders of the Certificates pursuant to a Pooling and Servicing Agreement as more fully described herein. Information regarding each Class of Senior Certificates, including the aggregate principal amount and characteristics of the Mortgage Loans in the related Mortgage Loan Group, will be furnished in the Prospectus Supplement relating to such Class.

NEITHER THE SENIOR CERTIFICATES NOR THE MORTGAGE LOANS WILL BE GUARANTEED OR INSURED BY FARMERS HOME OR BY ANY OTHER FEDERAL AGENCY OR INSTRUMENTALITY.

Farmers Home's only obligations with respect to the Mortgage Loans will be pursuant to its limited obligations under certain representations and warranties and as a result of the exercise by Borrowers of certain rights which may be available to them under the Mortgage Loans and applicable laws or regulations. See "Description of the Certificates" and "Description of Loan Sale Agreement."

An election will be made to treat the Trust as a real estate mortgage investment conduit ("REMIC") for federal income tax purposes. Each Class or Sub-Class of Senior Certificates will be considered a regular interest in the REMIC and one of the classes of Subordinate Certificates will be considered to be the residual interest in the REMIC. See "Certain Federal Income Tax Consequences" herein.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Salomon Brothers Inc

E. F. Hutton & Company Inc.

Shearson Lehman Brothers Inc.

Goldman, Sachs & Co.

The First Boston Corporation

Merrill Lynch Capital Markets

Bear, Stearns & Co. Inc.

Manufacturers Hanover Ltd.

Retain this Prospectus for future reference. This Prospectus may not be used to consummate sales of the securities offered hereby unless accompanied by a Prospectus Supplement.

The date of this Prospectus is September 21, 1987.

PROSPECTUS

$250,000,000

NEWMAN FINANCIAL CORPORATION
Collateralized Multifamily Housing Bonds
FHA Insured Mortgage Loans/GNMA Securities
(Issuable in Series)

Newman Financial Corporation ("Issuer") may sell from time to time up to $250,000,000 aggregate principal amount of Collateralized Multifamily Housing Bonds—FHA Insured Mortgage Loans/GNMA Securities ("Bonds"), issuable in series ("Series"). Each Series of Bonds will consist of one or more types of Bonds including (i) current interest bonds ("Current Interest Bonds"), on which interest will accrue from the Accrual Date and will be payable on each Bond Payment Date specified in the related Prospectus Supplement, with the Principal Amount thereof payable at Stated Maturity, or upon earlier redemption or acceleration of maturity; (ii) compound interest bonds ("CIBs"), on which interest will accrue from the Accrual Date and will be compounded semiannually, unless otherwise specified in the related Prospectus Supplement, and paid, together with the original principal amount of such Bond, at Stated Maturity, or upon earlier redemption or acceleration of maturity; and (iii) Government Agency Time-deferred Ownership Receipts ("GATORs")[*] on which interest will accrue from the Accrual Date and will be compounded semiannually, unless otherwise specified in the related Prospectus Supplement, but will be payable only after the Conversion Date specified in the Prospectus Supplement, or upon earlier redemption or acceleration of maturity; after the Conversion Date, interest on the Conversion Amount of each GATOR will accrue from the Conversion Date thereof and will be payable on each succeeding Bond Payment Date as specified in the related Prospectus Supplement. Bonds of any Series may be issued as serial bonds or as term bonds. The Prospectus Supplement ("Prospectus Supplement") accompanying this Prospectus sets forth, with respect to each Bond being offered thereby, the specific designations, aggregate principal amounts, maturity dates, rates and times of payment of interest, certain redemption provisions, a description of the property securing the bonds and the terms of the offering, including proceeds to, and their use by, the Issuer, the name of the underwriter or underwriters and other specific terms of the offering.

The Bonds of each Series will be collateralized by either mortgage loans ("FHA Insured Mortgage Loans") that are insured by the United States Department of Housing and Urban Development ("HUD") acting through the Federal Housing Administration ("FHA") pursuant to Sections 220, 221(d) (3) or 221(d)(4) of the National Housing Act, as amended ("National Housing Act"), relating to one or more multifamily housing projects ("Projects"), or "fully modified pass-through" mortgage backed certificates ("GNMA Securities"), including construction loan certificates and permanent loan certificates, guaranteed by the Government National Mortgage Association ("GNMA"), and backed by mortgage loans relating to one or more Projects that are insured by FHA under any of the foregoing sections of the National Housing Act or that are coinsured by FHA pursuant to Sections 223(f) or 244 of the National Housing Act, together with certain funds and other collateral (collectively, "Collateral") as described herein and in the related Prospectus Supplement. The Collateral will secure the related Series of Bonds. The full and timely payment of the principal of and interest on the GNMA Securities is guaranteed by GNMA, which guarantee is backed by the full faith and credit of the United States. FHA insures payment of the outstanding principal amount of the FHA Insured Mortgage Loans pursuant to its contract of mortgage insurance. See "SECURITY FOR THE BONDS".

Scheduled payments on the Collateral and other assets securing the Bonds of a Series, together with reinvestment earnings thereon at the annual rates and from the sources specified in the Prospectus Supplement for such Series, are anticipated to be sufficient to make timely payments of interest on the Bonds of such Series and to retire each Bond in accordance with its terms as specified in the related Prospectus Supplement.

The Bonds of each Series will be subject to redemption under the circumstances described herein and in the related Prospectus Supplement. See "DESCRIPTION OF THE BONDS". Potential investors should review "SPECIAL CONSIDERATIONS" in this Prospectus and in the related Prospectus Supplement, if any, for information concerning certain risks to Bondholders. There is presently no market for any Series of the Bonds, and there is no assurance that a secondary market for any Series of the Bonds will develop.

Although the payment of the principal of, and interest on, the Collateral is guaranteed by GNMA, or insured by FHA, as the case may be, the Bonds represent obligations solely of the Issuer and are not guaranteed or insured by GNMA, FHA or any other governmental agency or by any other person or entity. The Issuer will have no assets which are significant by comparison to amounts due on the Bonds other than those assets pledged as Collateral for the Bonds.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NEWMAN AND ASSOCIATES, INC.

The date of this Prospectus is , 1986.

This Prospectus may not be used to consummate sales of Bonds unless accompanied by a Prospectus Supplement.

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[*] GATORs is a proprietary mark of Newman Financial Services, Inc.

AFL-CIO
HOUSING INVESTMENT TRUST

736 Bowen Building
815 Fifteenth Street, N.W.
Washington, D.C. 20005
(202) 347-6877

The primary objective of the American Federation of Labor and Congress of Industrial Organizations Housing Investment Trust ("Housing Trust") is to provide current income through a program of investment in construction and long-term mortgage loans and mortgage backed securities carrying competitive market yields. The Trust invests in obligations that are evidenced or secured by mortgage backed securities, mortgages or other liens on real estate. At least 90 percent of the mortgage loans and mortgage backed securities in which the Trust invests directly or that back other investments of the Trust are federally insured or guaranteed. At the same time, the Housing Trust seeks to promote important objectives of the American labor union movement by encouraging the construction of housing and by promoting additional and continuing employment for union members in the construction trades and related industries that provide materials, furnishings, appliances, and services related to housing construction. The Housing Trust proposes to achieve these union objectives by limiting its mortgage investments to union-built housing including single family dwellings, multifamily projects, retirement facilities, intermediate care facilities and nursing homes.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus sets forth concisely the information about the Housing Trust that a prospective investor ought to know before investing. Investors should read and retain this Prospectus for future reference. A Statement of Additional Information about the Housing Trust has been filed with the Securities and Exchange Commission ("SEC") and is available upon request without charge from Housing Trust headquarters. The Statement of Additional Information, including the Housing Trust's audited financial statements for the fiscal year ended September 30, 1986, is incorporated by reference in this Prospectus.

The date of this Prospectus is January 20, 1987.

The date of the Statement of Additional Information is January 20, 1987.

Confidential

Copy No. ____________

Offeree ____________

PRELIMINARY
PRIVATE PLACEMENT MEMORANDUM

OXFORD ACCEPTANCE CORPORATION V

**(an affiliate of Oxford Mortgage & Investment Corporation
and Oxford Mortgage Securities Corporation,
Bethesda, Maryland)**

$13,600,000* OF % INSURED PAYMENT CERTIFICATES SERIES 1987A
DUE APRIL 1, 1994 ISSUED BY OXFORD FINANCIAL TRUST I

$12,300,000* OF % INSURED PAYMENT CERTIFICATES SERIES 1987B
DUE APRIL 1, 1994 ISSUED BY OXFORD FINANCIAL TRUST II

$12,500,000* OF % INSURED PAYMENT CERTIFICATES SERIES 1987C
DUE APRIL 1, 1994 ISSUED BY OXFORD FINANCIAL TRUST III

Holders of each Series of Certificates will be entitled to receive distributions of insured principal and interest payments, which are directly payable under separate surety bonds issued by

CONTINENTAL CASUALTY COMPANY

(a wholly owned subsidiary of CNA Financial Corporation)

Distributions of insured interest payments on each Series of Certificates are payable semi-annually, on April 1 and October 1 of each year, commencing on October 1, 1987. Distributions of insured principal payments on each Series of Certificates are payable semi-annually, on April 1 and October 1 of each year, in amounts as detailed on pages 7-8 herein, commencing on April 1, 1990 up to and including April 1, 1994, when a final distribution of the remaining principal amount will be due. **No prepayment on or in respect of the outstanding principal indebtedness insured and payable under any Surety Bond is permitted, in whole or in part, for any reason prior to January 1, 1994.**

DELIVERY OF THIS PRIVATE PLACEMENT MEMORANDUM TO ANYONE OTHER THAN THE OFFEREE NAMED ABOVE IS UNAUTHORIZED. THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR UNDER THE SECURITIES LAW OF ANY STATE, AND NO SALE, PLEDGE, OR TRANSFER OF A CERTIFICATE MAY BE MADE UNLESS SUCH SALE, PLEDGE, OR TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

The Certificates are offered subject to receipt and acceptance by the Placement Agents and the Depositor, to prior sale and to the Placement Agents' and the Depositors' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the Certificates will be made at the offices of Salomon Brothers Inc, One New York Plaza, New York, New York, on or about March , 1987.

Salomon Brothers Inc **Newman and Associates, Inc.**

The date of this Preliminary Private Placement Memorandum is March 16, 1987.

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*Approximate amounts. The actual principal amount of each Series of Certificates will be determined at the time of the pricing of the Certificates, and the aggregate principal amount of each Series of Certificates can be increased or decreased by up to four percent (4%).

PRELIMINARY PROSPECTUS DATED MAY 7, 1985

Prospectus

$500,000,000

THRIFT FINANCING CORPORATION

TIMCO℠ (Thrift Industry Mortgage Collateralized Obligation) Bonds

(Issuable in Series)

Thrift Financing Corporation ("Issuer") proposes to sell from time to time up to $500,000,000 aggregate principal amount of one or more Series of its TIMCO (Thrift Industry Mortgage Collateralized Obligation) Bonds ("Bonds"). Each Series of Bonds will consist of one or more Classes ("Classes"), one or more of which may consist of Compound Interest Bonds. Interest on each Class of Bonds other than a Class of Compound Interest Bonds will be payable on each Payment Date specified in the related Prospectus Supplement. Interest payments on each Class of Compound Interest Bonds will commence only when Bonds of the related Series having a Stated Maturity prior to the Stated Maturity of such Class of Comp Interest Bonds have been paid in full. Prior to such time, interest on such Class of Compound Interest will accrue and the amount of interest so accrued will be added to the principal thereof on each Payment Date. The amount of the principal required to be paid on a Series of Bonds on each Payment Date will be applied to the Classes of Bonds of such Series in the order of their respective Stated Maturities, so that no payment of principal will be made on any Bond of such Series until all Bonds of such Series having earlier Stated Maturities have been paid in full.

The Bonds represent obligations solely of the Issuer and are not insured or guaranteed by GNMA, FNMA or FHLMC, or any other governmental agency, or instrumentality, or by any other person or entity. The Issuer will have no significant assets other than those assets pledged as Collateral for the Bonds or separately pledged as collateral for similar series of bonds.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Bonds of each Series will be collateralized by Funding Agreements between the Issuer and Participating Borrowers for that Series and certain Mortgage Collateral thereunder. Participating Borrowers may include savings institutions, the deposit accounts of which are insured by the FSLIC, and limited purpose finance subsidiaries of such FSLIC insured institutions. The Mortgage Collateral may consist of "fully modified pass-through" mortgage backed certificates ("GNMA Certificates") guaranteed by the Government National Mortgage Association, Mortgage Participation Certificates ("FHLMC Certificates") issued by the Federal Home Loan Mortgage Corporation, Guaranteed Mortgage Pass-Through Certificates ("FNMA Certificates") issued by the Federal National Mortgage Association, conventional mortgage pass-through certificates ("Conventional Certificates") issued by the servicer for a pool of mortgage and deed of trust loans and/or by individual mortgage and deed of trust loans ("Pledged Mortgages"), together with certain funds and other collateral as described herein and in the related Prospectus Supplement. The Issuer also may pledge Mortgage Collateral owned by it to secure a Series. The full and timely payment of the principal of and interest on the GNMA Certificates is guaranteed by GNMA, which guaranty is backed by the full faith and credit of the United States. FNMA guarantees timely payment of principal and interest on FNMA Certificates. FHLMC guarantees timely payment of interest and ultimate payment of principal on FHLMC Certificates. Neither the FHLMC nor FNMA guaranties will be backed by the full faith and credit of the United States. The Conventional Certificates and Pledged Mortgages are not government guaranteed or insured. See "SECURITY FOR THE BONDS".

Distributions on the Mortgage Collateral and payments on the Funding Agreements securing a Series of Bonds, together with reinvestment earnings thereon at assumed annual rates specified in the Prospectus Supplement for such Series and, if applicable, cash available from Reserve Funds established for that Series, will be sufficient to make timely payments of interest on the Bonds of such Series and to retire each Bond not later than its Stated Maturity. The rate of payments of principal of each Bond will generally depend on the rate of payment (including prepayments) on the Mortgage Collateral for that Series and the actual maturity of any Bond is thus expected to occur earlier than its Stated Maturity. The Bonds of each Series will be subject to redemption under the circumstances described herein and in the related Prospectus Supplement. See "DESCRIPTION OF THE BONDS". There is presently no secondary market for the Bonds and there is no assurance that a secondary market will develop.

Retain this Prospectus for future reference. This Prospectus may not be used to consummate a sale of the Bonds unless accompanied by a Prospectus Supplement.

Salomon Brothers Inc **Craigie Incorporated**

The date of this Prospectus is , 1985.

CONGRESSWOMAN MARCY KAPTUR

Funding Fee

Question: The budget document does not reflect a proposal to increase the funding fee. Can we assume the Administration will not be resurfacing the concept of higher fees for veterans?

Answer: The Veterans Administration continues to support a permanent increase in the funding fee to offset the costs of providing the guaranteed loan benefit. The terms of the Bipartisan Budget Agreement precluded the Administration from proposing an increase in the fee for FY 1989. The current one percent fee is clearly insufficient and could be increased without undue hardship to veterans. Most veterans elect to finance the fee over the life of the loan and, therefore, the higher fee charge would be spread out over 30 years (360 payments) resulting in a marginal increase in the monthly mortgage payment.

Credit Reform

Question: Veterans service organizations testified that they are concerned that the Administration's credit reform initiative could result in the VA losing control of the home loan program. Do you agree with this statement?

Answer: No. The Administration's credit reform proposal clearly stipulates that this legislation be "program neutral". All Federal credit agencies will maintain control over program administration for credit programs.

Question: The fiscal year 1989 budget reflects a grant equivalent subsidy of $1.3 billion. Do you foresee an up front appropriation of this amount?

Answer: Yes. The Administration's credit reform proposal requires that the subsidy be appropriated in order for the agency to make a direct loan or guaranteed loan commitment. The subsidy amount will be estimated based upon the subsidy rate, determined by the Department of Treasury, multiplied by the agency's estimate of commitments.

It is estimated that the benefit derived by borrowers in having the VA guaranty approximately 232,600 loans valued at $17.9 billion is $1.3 billion. These funds would be transferred to Treasury at the time the guaranteed loan is closed or the direct loan made.

Property Management Pilot

Question: The budget document reflects a request of $4 million in fiscal year 1989 for a property management pilot project. Could you elaborate on what uses the money will be spent?

Answer: The pilot program would be conducted to determine the cost-effectiveness, feasibility and efficiency of contracting with commercial organizations to perform many property management and disposition functions of the VA-acquired foreclosed properties. Contractor services will include but are not limited to reviewing title documents during the acquisition phase; processing tax bills, homeowners' association fees and other property assessments for payment; initiating eviction actions; establishing property values; and publishing sales listings of a monthly sample of the VA property inventory.

CONGRESSWOMAN KAPTUR

Appraisals

QUESTION: Public Law 100-198 authorizes appraisal reports to be sent directly to approved lenders for expedited review and reasonable value determination through fiscal year 1990. What progress has been made to establish a direct appraisal program?

ANSWER: We are continuing to proceed with the development of the standards, procedures and regulations necessary to implement a lender appraisal review program. We have had meetings with both program and monitoring division staffs at HUD headquarters to discuss their existing lender appraisal review system, the Direct Endorsement Program. The Director of HUD's Lender Single Family Activities Monitoring Division has agreed to allow VA staff in several regions across the country to accompany their out-stationed monitoring division staff on a lender field review to assist us in determining our needs in complying with the statutory requirement that we "determine the effectiveness and efficiency of the determination of reasonable value by lenders."

Section 11(b) of Public Law No. 100-198 requires the lender review appraisal program be implemented in regulations. A preliminary outline of draft regulations has been developed which would establish the application and approval process extending this special privilege to those certain lenders, as set forth in the statute, who are eligible to apply and setting forth administrative actions which may be taken by the VA, if appropriate. That preliminary outline is currently under review by our Loan Policy Section of the Loan Guaranty Service, since the lender appraisal review program will intermesh with the automatic lender process already in place and we will be setting forth in regulations terms that relate to that functional area that are not yet in regulatory form. We intend to have the specific technical procedures, requirements and guidelines governing the review of the appraisal and determination of reasonable value, etc. remain in circular form when the final regulations are established.

Development of the circular to implement the lender appraisal review program is ongoing. When the circular is in near final form, we intend to have selected field station personnel participate in making final changes. Since the lender appraisal review program will be implemented concurrently at all 49 regional offices, we must ensure that we have a workable program. It is also important to recognize that VA's liability under the guaranty is directly related to the soundness of the appraisal report and the integrity of the appraisal report is critical to the success and solvency of the loan guaranty program.

CONGRESSWOMAN KAPTUR

Underwriting

QUESTION: In fiscal year 1987 the credit standards used in underwriting VA loans were significantly altered to provide for more consistency between offices. Public Law 100-198, enacted December 21, 1987, requires the Administrator to give appropriate consideration to State statistics. What progress has been made in this regard?

ANSWER: Public Law 100-198 requires appropriate consideration be given to State statistics "in States as to which the Administrator determines that such statistics are reliable". To date the few State statistical reports submitted have not met that criteria. The data they were based on was not considered statistically valid as determined by our own review and by our contacts at the Department of Labor's Bureau of Labor Statistics. In recent releases to field stations and program participants we have stressed our willingness to review and consider any State statistics submitted for use in setting the residual income guidelines for VA guaranteed loans.

CONGRESSWOMAN MARCY KAPTUR

Loan Guaranty

Background: In an appearance before the Committee on Veterans Affairs on March 3, 1988, the DAV stated that it has one serious reservation and question regarding the credit reform proposal. Specifically.

Question: By eventually terminating VA revolving funds, does this mean that certain VA functions, such as property management, will also be transferred to Treasury?

Answer: No. The credit reform proposal is "program neutral." The VA would continue to be responsible for the guarantying of loans, servicing of loans, management of property, etc.

Question: Is the equivalent subsidy appropriation really required "up front" without first determining the actual needs of the fund?

Answer: Yes. Under the proposed legislation, The Secretary of Treasury and the Federal agencies will develop procedures for estimating subsidies that are consistent with the nature of the individual programs. For some programs, with large numbers of small transactions, the Federal agency may estimate the subsidy based on guidance and under the oversight of the Secretary. Loan documentation may be provided to the Secretary on a periodic basis, such as all the loan commitments that are made in a month. The subsidy estimate may be agreed to in advance given specified loan characteristics. In such an instance, the Secretary would only modify the subsidy estimate if economic conditions change or if the mix of the group of loans differed from the assumed mix. In contrast, the Secretary might review large discreet loans on a loan by loan basis to determine the subsidy.

The subsidy estimates will be recorded by the Federal agency as obligations for the purposes of accounting for the use of budgetary resources. These obligations will be treated as obligated balances of the subsidy account until the guaranteed loan is disbursed.

The VA will provide its estimates of loan guaranty commitments and direct loans to Treasury so that their subsidy estimates will consider the actual needs of the program.

Question: Will the "up front" appropriation be specifically ear marked for VA loan programs, or will it become available to settle indebtedness in other federal loan programs?

Answer: These funds will be specifically earmarked only for VA programs.

Question: Will the VA be required to change the manner in which they currently administer their various loan programs?

Answer: No. One of the primary characteristics of Credit Reform is that it is "program neutral". The manner in which loans are currently made or guaranteed would not change.

Question: Should the manner and procedures the VA currently follows to administer their loans change, what change will this have on eligible VA beneficiaries?

Answer: As mentioned in the previous response, credit reform is "program neutral." The enactment of this proposal will not alter the manner in which loans are made or guaranteed by the VA.

CONGRESSMAN APPLEGATE

QUESTION 1: When the President's Budget for fiscal year 1988 was submitted, budget authority for a 3.5 percent COLA in Compensation was included as part of a proposal to index compensation to the CPI. How then did you come up with a deficiency of $479.6 million when the congress enacted a 4.2 percent COLA?

ANSWER 1: It is true that the amount of additional budget authority ($301 million) for a projected 3.5 percent Compensation COLA was included as part of the proposal to index future rate increases to the CPI. However, that budget authority was shown separately under proposed legislation and was not included in the appropriations request, i.e., it was proposed to be requested after the Congress enacted the COLA.

The initial 1988 request for the Compensation program was based on existing payment levels. Since Compensation rates can be increased only as a result of Congressional action, the 1988 appropriations request was based on payment levels prescribed by current law at that time, i.e., PL 99-576, which increased rates by 1.5%, effective December 1, 1986. In January 1988, PL 100-227 was enacted. This increased the PL 99-576 rates by 4.2 percent, retroactive to December 1, 1987. This required additional funds ($353.9 million) above the 1988 base. If the proposal to index future Compensation increases to the CPI were enacted, future requests for appropriations would include the additional requirements needed to fund automatic cost-of-living increases as is the case now for veterans pensions.

The $479.6 million 1988 deficiency is comprised of the following:

o $353.9 million for the actual 4.2 percent rate increase that was effective December 1, 1987,

o $101 million as a result of higher-than-anticipated caseloads and average payments, and

o $24.7 million as a result of the rescheduling of some 1987 payments into 1988.

QUESTION 2: The budget contains no request for long-term funding of the DVB modernization initiative; what was the amount of the request as submitted to OMB for this project?

ANSWER 2: Our OMB budget request for the modernization initiative reflected $19.2 million in obligations of which $4 million was new budget authority and $15.2 million was the carry over from our FY 1988 two-year appropriation.

QUESTION 3: What was the amount of the funding request in your submission to OMB for General Operating Expenses for the DVB and how many FTEE were requested?

ANSWER 3: In the 1989 OMB submission for the General Operating Expenses appropriation, the Department requested obligations of $540,807,000 and 12,455 in average employment.

CONGRESSMAN APPLEGATE

QUESTION 4:	The independent budget prepared by four service organizations recommended specific amounts for training in DVB. Have you designated any specific amounts in the budget for this purpose?
ANSWER 4:	The independent budget prepared by the four service organizations recommends $650,000 for Compensation, Pension and Education program training. The 1989 President's Budget includes funding for training as described below:

	Obligations
Executive Development	$140,000
Contract Training	126,000
ADP Training	207,000
Employee Training	786,000
Conference/Training	356,000
Total Training	$1,615,000

QUESTIONS OF CHAIRMAN MONTGOMERY
FOR PANEL I
HEARING RECORD OF MARCH 3, 1988

Question 1
Will you tell us what you have learned about the "phantom bed" phenomenon and what that tells us about the ability of the Veterans' Administration to provide care to veterans?

Answer
Historically, the phantom bed phenomenon was a problem of real concern which called for close and continuous audit. It was prevalent back in the time when the number of beds, along with the average patient census, was an important factor in variations on the makeup of the Composite Work unit - the model upon which resource allocation was based. A hospital's false inclusion of nonexisting beds was not dissimilar to the dishonest "gaming" by which facilities today can circumvent the limitations imposed by the DRGs. Since today's resource allocation models make no use of bed counts there is no monetary incentive to lay claim to phantom beds.

However, there is a new incentive - the Congressionally mandated floor below which the number (90,000) of VA hospital and nursing home beds are not to be reduced. There seems to be a reluctance on the part of VACO to display accurate counts, but difficult to verify.

In the course of the Independent Budget telephone survey an administrator in one VAMC told of 30 beds having been eliminated several years previously for space conversion to out-patient clinics. Since that time Central Office has repeatedly disapproved the hospital's request for reduction of their authorized beds by 30. Such inclusion of phantom beds, of course, renders data on the percentage of bed occupancy meaningless. However, as long as there remain empty beds over and above the phantom count, this action does not compromise the ability of the VA to provide quality care to veterans.

On pages 52-53 of the VSO FY 1989 Independent Budget restraint is recommended in any further reduction in VA bed levels pending full understanding of currently unsteady VA health care trends, the magnitude of unmet need of entitled veterans, and the ultimate opportunities for facility conversions to alternate modalities of care.

Question 2
Please provide the Committee with some concrete and detailed examples of delays in the provision of prostheses to veterans.

Answer
To gather specific information relating to the VA's delays in the provision of prosthetic equipment, PVA National Office sent an inquiry to our Veterans' Service Officers in the field requesting a detailed analysis of the status of prosthetics funding and the provision of prosthetic equipment at the VA Medical Center level. We are submitting for inclusion in the hearing record sample responses which we feel do specifically identify a growing problem in this area.

As far as PVA can determine, there are very few flat denials of prosthetic equipment to eligible veterans. On analysis, however, we can identify a growing problem in the intentional delay in the provision of these devices and equipment so vital to the rehabilitation of disabled veterans and veterans recovering from major medical procedures. As instances recorded here demonstrate, it often takes weeks and months for an application for prosthetics equipment to be filled and even then, the equipment provided is often times substandard, outdated, or inappropriate. The problem can be directly traced to the lack of clear identification within the budget allocation of each VA medical center for a specific line item which can designate funding levels for prosthetics and prosthetics only. The problem can be resolved if such a line item is designed and adhered to by VA central office direction and individual VA medical center disbursement policies.

As it stands now, the yearly prosthetics funding allocation for each VA medical center is unspecified within its budget for that purpose and lumped into the general medical care allocation. As the demand and cost of VA health care rise, the dollars to provide that care continue to shrink. An individual medical center director, under these circumstances, is increasingly tempted to "borrow" or transfer funds which should be used for prosthetics to pay for other services. We believe this to be a common and condoned practice in the VA system today.

Shifting funds from general prosthetics needs, quarter by quarter during any given fiscal year, a medical center director can only compensate for the shortfall by delaying the provision or purchase of prosthetic equipment. If funding for prosthetics has run dry in a given quarter because a sizeable portion of the full allocation was shifted to other purposes, an application for a wheelchair, for instance, for an eligible veteran very often might have to wait until well into the next or subsequent quarter until the new quarterly allocation takes care of the pending backlog of prosthetic requests from previous quarters and sufficient funds are available to cover the cost of that wheelchair. Or, as is happening in many cases, the veteran is furnished substandard, inappropriate or ill-fitting used equipment where funding is not available to provide new devices. Both the VA and the veteran suffer extreme inconvenience, particularly in the provision of state-of-the-art high tech equipment currently so beneficial for the rehabilitation needs of disabled veterans, but unobtainable purely because available funding to purchase these items has been spent for other purposes.

In the end, this situation presents a recurring budgetary deficit for prosthetics at the VA medical center. If, for instance, $500,000 was requested and provided within the general medical account for prosthetics, at a particular station, in one given fiscal year; and, if the medical center, at its own discretion, shifted $100,000 of that amount to other services delaying or postponing requests for prosthetics into the next fiscal year. The medical center could only show for the purposes of its budget request for the next fiscal year that it expended $400,000 for prosthetics. That would be the baseline for future funding. Incrementally, year after year, if this pattern is allowed to continue, and prosthetic equipment requests continue to be delayed or deferred, there would appear a smaller and smaller allowance for prosthetics which would not show or even come close to meeting the true demand for prosthetic equipment at this station. The only way to avoid this situation is to create a specific budgetary line item for prosthetics to be able to clearly monitor true prosthetics needs and to ensure that funds allocated for this purpose are spent as they were intended.

Sample responses from PVA National Service Officers follow:

Question 3
Will you explain to the Committee why you think it is important that entitlement for outpatient care be extended to the group of Category A veterans who now have entitlement to inpatient care?

Answer
This question is best answered by reference to the attached excerpt from page 38 of the Independent Budget.

> "The VA health care system has always been distinguished for offering patients a comprehensive, coordinated continuum of care. However, as entitlement and eligibility rules now stand under PL 99-272, most veterans in Category A, with clear entitlement to inpatient care are not entitled to outpatient care except in very restricted circumstances. (These special circumstances are (1) "to obviate the need" for inpatient care and (2) as a follow-up to inpatient care.) In our discussion with top management officials across the VA health care system, we found that the majority of VA medical centers are greatly reducing access to ambulatory care by restrictive use of the "obviate-the-need" clause. This is a dollar-driven decision made irrespective of a physician's professional judgment. Some hospital managers stated that because of inadequate resources only in acute emergencies are nonservice-disabled medically indigent veterans provided ambulatory care. Basing a decision to provide or deny medical care on a variable and financially motivated interpretation of "obviating the need" for hospitalization leads to poor management of chronic illness - which requires regular, periodic care. It is bad medicine - and often bad economics - to turn away veterans needing out-patient care on the grounds that their current condition is not sufficiently severe to require hospitalization. It invites acute, serious, and costly complications and is also a contradiction of the current national emphasis on noninstitutional care."

Question 4
In the alternative budget, you recommend that the VA should make greater use of mid-level health care providers. Will you give some examples of exactly what you mean?

Answer
Examples of mid-level health care providers of which greater use could be made:

- Physician Assistants
- Nurse Practitioners
- Licensed Practical Nurses
- Psychologists
- Optometrists
- Dental Hygienists
- Podiatrists

PVA

**PARALYZED VETERANS
OF AMERICA
NATIONAL SERVICE OFFICE**
Chartered by the Congress
of the United States

VETERANS BENEFITS
RECEIVED
MAR 28 1988

Memorandum

TO: RICHARD GLOTFELTY, DIRECTOR OF OPERATIONS

FROM: [redacted], NATIONAL SERVICE OFFICER

SUBJ: PROSTHETICS BUDGET

DATE: MARCH 25, 1988

I made further inquiries into the cases I informed you about in my letter dated February 24, 1988.

I called [redacted] and he informed me his new electric wheelchair with a power recliner is scheduled for delivery on or about April 25, 1988. The order was placed on January 15, 1988. He was using a back up chair on a temporary basis.

[redacted] was hospitalized at the VAMC, [redacted] on November 13, 1988. He received a Halo Brace on November 23, 1988. He was in cervical traction during this time period. The cervical traction is acceptable medical treatment. However, the drawback is the patient is confined to bed. With the Halo Brace, a patient can be placed in a wheelchair and rehabilitation training can start sooner.

I spoke with [redacted]. On January 29, 1988, an order was made for bathroom equipment. I called [redacted] on March 23, 1986, and he still does not have this equipment. He informed me that he is using a lawnchair in his bathroom until he gets his equipment. I would think that this is a definite inconvenience. ([redacted] gave me verbal permission to use his name. We do not hold P.O.A. on him because he is not in receipt of compensation or pension.)

I spoke with [redacted]. A new wheelchair was ordered on January 20, 1988, to replace his primary wheelchair. As of this date, the wheelchair has not been received. [redacted] is scheduled for discharge on March 25, 1988, so he will have to use his back-up wheelchair.

On March 24, 1988, I visited the Prosthetics Unit and noticed a stack of orders waiting to be sent out. The stack was about a foot high. There were two other stacks of orders that were sent, but still not filled. Each stack was about four to six inches high.

[redacted]

I did not meet with [redacted], Chief of Prosthetics since he was attending a meeting. I did speak with him by phone today and he confirmed there was a severe budget problem. Since Prosthetics is out of money, they are always playing catch-up.

After talking with [redacted], it seems the problem starts with Congress. It seems that not enough money is appropriated to the hospitals to allow for efficient operation. As the medical demands of patients increase, the amount of service and/or treatment is reduced.

What is interesting with all of this is that the veteran population is not aware that they aren't receiving equipment due to budget problems. They perceive the problem as "The VA is just slow" or "My order is still being processed."

I would think that if more veterans were made aware of the problem, they too would contact their elected officials. Once the elected officials began looking into the problem, it would confirm the validity of this problem.

I regret I could not come up with more hard facts. If I can be of further assistance, please let me know.

cc: Robert Huffman, Acting National Field Director.

PVA

**PARALYZED VETERANS
OF AMERICA
NATIONAL SERVICE OFFICE**
Chartered by the Congress
of the United States

VETERANS BENEFITS
RECEIVED
MAR 28 1988

Memorandum

To: Mr. Richard Giotfelty, Director of Operations

From: [redacted], National Service Officer

Re: Prosthetics Budget

Date: March 25, 1988

The following information is provided as requested by Robert Huffman, Acting Field Director.

Because of the short notice I had in getting this information together, I could not come up with specific veterans that had lengthy delays in getting items from [redacted] VA. Although, I can think of two problems with our Prosthetic Unit. One, is not getting support at appropriate times. I am referring to June and July of 1987, when virtually no items except those classified as emergency could be ordered but in early August almost $50,000 was given to the prosthetics budget. During these two months prescriptions came in, orders were written, but these orders were never sent in because of the lack of funds.

The second problem is the lack of personnel. This station was set up as a five FTE shop and presently there is the Chief, the Orthotist, purchasing agent, and a part-time clerk typist which makes it difficult in keeping up with the workload causing further delays.

I do have one veteran who is serviced from Kansas City VA Hospital and this veteran's name is [redacted], C# [redacted]. For the record [redacted] is service connected, R-2 quadriplegic.

[redacted] requested an electric wheelchair in February of 1986, and this chair was not received until December 31, 1986.

In speaking to the Chief of Prosthetics about this case and in general about their financial and employee situation, he indicated a problem with a lack funds to pay for the items. Therefore orders are held for months before being sent in to

[redacted]

be filled. He was also two people short which causes delays to be longer.

I do not know specifics in regards to the budget reductions hitting [redacted] or the [redacted] hospital, but it is clear the timing of money is one of the prime problems causing delays with patients getting the items they need from the Prosthetics Department.

Again, the combination of orders being held until money is available, the lack of personnel, and the funding situation is the direct cause of the delays in veteran's obtaining the necessary items that they are needing.

I firmly believe prosthetics will need additional funding, additional employees, and a funding control point out of Central Office.

I hope this information will be of assistance to you. If there is anything further I can provide, please let me know.

[redacted]
cc: Robert Huffman

To: Mr. Rick Glotfelty
Director of Operations
Veterans Benefits

From: [redacted]
National Service Officer

Subject: Special Report: Prosthetics

Re: [redacted] VAMC

Date: March 24, 1988

Rick:

Received request per telecon March 22, 1988 from NFD Hill's office to report on claims for prosthetics items that are denied or delayed. Initially, a negative report was filed due to a lack of [redacted] PVA resources to research pending individual claims through [redacted] VAMC Prosthetics. There does not exist an automated system to inquire nor an alpha/numeric designation that would provide this information in a timely fashion.

Mr. [redacted] was able to provide general information as part of his regular hospital report (visitation March 22, 1988). I discussed his report with NFD Hill on March 23, 1988. He suggested I telephone the report to National. Contacted Jeff at National on March 24, 1988 and filed the following report telephonically:

[redacted] VAMC is approximately $60-80,000.00 over prosthetic budget each quarter, however, no claim has been denied due to lack of resources. Veterans are told the claims are being processed. Approximately seventy-five orders are being held in suspense due to lack of funds. Additional FTEE are also needed to process claims. Two FTEE have been eliminated since 1985. FY 85 total prosthetic claims were 18,000. FY 87 total prosthetic claims exceeded 23,000.

It is my assessment that an excess of thirty days in delay of processing prosthetic claims is a result of a deficit budget.

Respectfully submitted,

VINCE

PVA

Memorandum

**PARALYZED VETERANS
OF AMERICA
NATIONAL SERVICE OFFICE**
Chartered by the Congress
of the United States

VETERANS BENEFITS
RECEIVED
APR 04 1988

TO: Richard Glotfelty, Director of Operations

FROM: [redacted], National Service Officer

SUBJ: Prosthetics Budget

DATE: March 24, 1988

As per your request we are providing information on VAMC, [redacted], Prosthetics Budget.

The VAMC [redacted] handles both their own Prosthetics workload and the [redacted] Out-patient Clinic workload. The other hospital I cover, [redacted], comes under [redacted] Prosthetics Department. [redacted] Prosthetic Department has been experiencing an increase of out-patient workload and therefore have suffered from a shortage of Prosthetics Funds; at least during the last seven quarters. The Medical Center is discharging patients that request extensive medical home care equipment; these patients are being discharged sooner then they had in the past, and therefore are requiring more equipment as they are sicker. With each passing quarter the funding situation is becoming increasingly critical. The more equipment they place in the home setting, the more extensive is the repair and replacement cost. During the last two quarters of fiscal year 88, their funds have been obligated half way through the quarter. At the current time they are requesting additional money, at least twice, and generally three times per quarter. The funding problems are creating unnecessary delays and inconvenience for the veterans. The Director is aware of the problems and has requested that he be furnished a Fund Status Report each Monday, which includes the amount of orders that are currently being held due to insufficient funds. As of this date, the Prosthetics Department is holding $57,000.00 in orders that cannot be placed until April 1, 1988. The budget for the third quarter of fiscal year 88, will be $144,000.00. During the first quarter of fiscal year 88, Prosthetics saw five-hundred and eleven more patients then they had in the first quarter of the previous fiscal year. There is no data yet available for the second quarter, [redacted] [redacted] [redacted] however, an increase in patient load is expected.

Our Chapter in this area, is of the opinion that due to the fact that prosthetic budgets are not line items; those budgets have been tapped in the past, to pay for other services in the hospital not related to Prosthetics, which causes a further drain on the Prosthetics budget. I expect [redacted] Chapter to suggest in the form of a resolution, that this situation be corrected.

If you have any questions, please feel free to contact this office.

CLC/add

To: Richard Glotfelty, Director; Operations

From: [redacted], Senior National Service Officer

Date: April 12, 1988

VETERANS BENEFITS
RECEIVED
APR 15 1988

Subj: Prosthetics Staffing

Sir,

It has come to the attention of this Service Office that the prosthetics department at the VAMC, [redacted] is to be reduced by one FTE in the near future.

A reliable source has advised me that the Acting Chief, Rehabilitation Medicine with the approval of the Director has concluded that rehab staff needs, overrides that of prosthetics.

Central Office has indicated in reports on workload that prosthetics requires 5.6 FTE to operate efficiently, with the pending reduction a FTE of 3.0 will remain which is totally inadquate to support the veteran population which are already experiencing long delays due to budget restriction.

For Example: Only $\$7.000^{00}$ remains in the prosthetics budget for this Quarter due to a Large Amount being used for previous Quarter expenditures which will mean a two months delay in purchasing Items requested this Quarter of FY/1988.

This delay tactic due to lack of funds is commonplace and added to decreased staff will further complicate our Service to the Veterans.

I urge that PVA contact Central Office for assistance in preventing the staff reduction and budget restraints.

[redacted]

APR [illegible] 1988

DAV

Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

April 4, 1988

Honorable G. V. (Sonny) Montgomery, Chairman
House Veterans Affairs Committee
335 Cannon House Office Building
Washington, DC 20515

Dear Chairman Montgomery:

This is in response to your questions in follow-up to the House Committee on Veterans Affairs March 3, 1988 hearing on the Veterans Administration budget request for Fiscal year 1989.

The questions asked all relate to medical care issues mentioned in the Veterans Service Organizations Independent Budget proposal for Fiscal Year 1989.

We have had the opportunity to review the responses recently furnished to these questions by the "core staff" of the independent budget project. We are in agreement with the responses and do not feel anything substantial may be added at this time in response to questions 1, 3 and 4.

In response to question 2, I am enclosing a number of detailed examples outlining specific cases where delays have occurred in the furnishing of prosthetic devices to eligible veterans.

Sincerely,

David W. Gorman

DAVID W. GORMAN
Assistant National Legislative
for Medical Affairs

DWG:geb

DISABLED AMERICAN VETERANS

V. A. CENTER
FEDERAL BUILDING 192
FORT SNELLING
ST PAUL, MINNESOTA 55111

DWG

October 21, 1987

Mr. Charles E. Joeckel, Jr.
Disabled American Veterans
National Service & Legislative Headquarters
807 Maine Ave. S.W.
Washington, D.C. 20024

Dear Mr. Joeckel:

In previous correspondence concerning the V.A. Stamp Program, I indicated that additional statements from a veteran who was under the Stamp Program would be submitted in the near future.

Enclosed you will find that statement from Mr. Jack Bell. I am not sure that this statement will provide you with the information which you are seeking, however I am forwarding it for your review and disposition.

Sincerely yours,

Dennis D. Mensing

DENNIS D. MENSING
NATIONAL SERVICE OFFICER

DDM:ael
Enclosure

October 3, 1987
Lake Placid, Florida
33852

Mr. Dave Ryan, N.S.O.
Disabled American Veterans
U. S. Federal Office Building
St. Paul, Minnesota 55111

Dear Mr. Ryan:

This letter is being written in response to your phone call of September 24, 1987.

Prior to leaving Minnesota I phoned you inquiring,if I was to go to Washington, could you obtain representation by the Disabled American Veterans at the office of Veterans Affairs in Washington, D. C. Prior to phoning you, I had talked to Kathy Larson, secretary to Senator Rudy Boswitch at his St. Paul office. I asked if she thought the Senator could get an appointment for me at the office of the Chief of Staff of Veterans Hospitals at Washington, D.C. She said it was an unusual request but felt it was a reasonable request and was quite confident it could be accomplished. It was my intention to be in Washington to personally present my case with reference to the STAMP program.

Kathy Larson advised me that by the time correspondence between Washington and the Minneapolis Medical Center was concluded, a year or more could transpire, and I still would not have a prosthesis for my right above knee amputation. In other words, as like today, I would still be standing there, literally without a leg to stand on.

I opted to make every effort to make arrangements to obtain a right above knee prosthesis as expeditiously as possible. As a consequence, I called Mr. Lorren Roberts, Chief of Prosthetics at Fort Myers, Florida. He advised me they would schedule me for their amputee clinic on September 18, 1987. We left Minnesota early so I could attend that clinic. At the amputee clinic on 9-18, my wife and I were advised by Mr. Roberts that there would be a lot of maneuvering he would have to do to get me released as a prosthetic patient to the Fort Myer clinic. As a consequence, I am still without a prosthesis. In essence, what I'm trying to say in the aforementioned only serves to remind you that in June 1987, I was making an effort to determine what was going wrong with the Veterans Administration stamp program.

In June, 1985 Carl Rieher, Chief of Prosthetics (deceased) advised me they were entering me into the V.A. Stamp program. At that time it was a Stamp program in name only. The prosthetics department, up to that point, had only been fabricating below the knee prosthesis and were not equipped to do above knee fabrication. As a consequence, everything moved slowly while they were in the process of requisitioning equipment and parts.

In 1985 I was fitted with a prosthesis that consisted of a hard outer socket shell and a soft orthosil sleeve insert. The space at the distal end between the orthosil sleeve and hard outer shell was filled with silicone. The prosthesis weighed fourteen and a half pounds. After three weeks the silicone at the distal end started to disentegrate and shred out through the hole that accomodates the air valve. As a result of this, I had no support at the distal end.

To compensate for the loss of the silicone, I was in Florida at this time, I cut pads out of sponges and inserted them in the space for the distal support.

In March of 1985 the powers to be at the Minneapolis Stamp program decided it would be less expensive to fly me from Orlando to the Minneapolis V.A. Hospital to correct the problem rather than pay a private prosthetic company in Florida. I flew to Minneapolis, was admitted to the VA Hospital. After two days, Joe Medvec, stamp prosthetist, advised me they had damaged the air valve and would have to try to repair or replace it before they could do anything about improvising something to repair the distal end. Three days later Joe advised me they had repaired the valve, however, so many amputees had been admitted and scheduled for him to work on that it was going to be impossible for him to do anything about the reason I was there in the first place, repair the distal end of my prosthesis. He suggested I contact the travel office, return to Florida, and when I returned to Minneapolis, around May 1, 1986, they planned on making a completely new socket called a modified CAT/CAM also called Normal Stance/Normal Alignment.

After returning to Minnesota May 7, 1986 a new cast was made of my stump. I was fitted with a NS/NA socket and was given a temporary leg to walk with. During the summer of 1986 I complained to Joe Medvic about three problems i.e:

1. My prosthetic foot was a 29 mm not a 30mm. The foot was sliding around in the shoe. After two weeks he finally looked at it and couldn't figure out where the 29 mm foot came from. He then mounted my prosthesis with the proper 30 mm foot.
2. The foot was so badly inverted that I was walking, not on the middle of the foot but on the outside, throwing me off balance to the left. He refused to cut the ankle block and realign the inversion-eversion of the foot.
3. The lateral wall was so high on the trochanter that it was rubbing on the illiac crest and unbearable. He made no adjustment. The leg was laminated "as is" and presented to me as finished - final.

I have two prosthesis. One furnished by the Veterans Administration and one I obtained on my own.

I left Minneapolis for Florida around October 29, 1986. Joe Medvec advised me they would finish my second prostheses, and I could anticipate receiving it in three weeks. My wife, Joyce, called Joe Medvec, in Minneapolis on November 27, 1986 to inquire about the progress on the prostheses I was suppose to have received. She was told by Mr. Medvec that she couldn't have called at a worse time. He was sick of the whole thing and didn't know when he would get it finished. It arrived in Florida January 5, 1987.

We arrived back in Minnesota May 3, 1987 and up to July 1, 1987 I was unable to get any repair or service on my prostheses. On July 1st I attended the amputee clinic along with patient representative, Chris Erickson who unfortunately is not versed in any area of prosthetics or descriptive nomeclature pertaining to it. The culmination of that clinic was Dr. Francis Trost advising me that in his opinion they had done everything they could for me. He was discharging me from the stamp program and would not authorize any private prosthetic firm in the area to treat me. I asked Dr. Trost, just so I completely understood the total meaning of his statement, "as I understand it, Dr. Trost, you have just advised me that this clinic is releasing me completely - will not do anything further for me prosthetically - will not authorize the private sector to perform any services for me - and as for as you are concerned I can walk out of this clinic on crutches and continue to do so for the rest of my life?" His reply, "that is correct."

I don't believe the stamp program is accomplishing any objectives it was designed for. I can recall the article in the Disabled American Veterans magazine announcing they had requested the Veterans Administration to design a program that would hopefully result in modernization of prosthetic designs which they felt had been stagnant since the end of World War II. The concept is good, however, I believe there are eighteen veterans hospitals set up as stamp program centers. They are trying to care for all existing and new amputees in their own region plus admitting as 'in house patients' amputees from anywhere in the United States to be treated and fitted under the stamp program. Naturally this creates an overload on the prosthetist.

V. A. hospital policy is 'get the patient in and then out as expeditiously as possible'. As a consequence the local out patient amputee ends up on the waiting list and waits and waits. In each case of the stamp program fabricating a leg for me I have waited from May until I left for Florida at the end of October for the finished prosthesis. Six months.

I'm enclosing a letter dated July 30, 1987 which states my problem is functional. That is a standard proceedure statement for the Minneapolis V.A. Medical Center. No! My problem is not functional - it is frustration.

You will note in Mr. Erickson's letter the mention of videotape. When they made the video tape, I did not have a suction on a total contact suction socket. I had to walk with a crutch in my left hand and try to hold a right aka prostheses on with my right hand. I staggered all over; however, I'm delighted that they put the ridiculous statement in writing in defense of their position.

I believe that the Disabled American Veterans will find many, many disillusioned amputees who have been ill served by the stamp program. Many who have put their prostheses in the closet and have accepted the inevitable. They have been chewed up and spit out. You are all alone and all avenues have been closed.

I can't honestly diagnosis why I insist on pursuing an acceptable prosthesis. Some other observer would have to define what motivates me to try to bring this to a satisfactory conclussion, which I'm confident I can achieve. God knows I can't find anyone in the Minneapolis stamp program who will make an honest effort to help. Even though they have seen me, with proper alignment, walk as near normal as most uneffected people. They are aware that with the use of an electric golf cart I can play 'at' golf for the first time in my life.

Question - who is going to help?
The responsibility of the stamp program should be transferred

to good reliable experienced private prosthetists. Dan Rowe, St. Paul, Minnesota, Ivan Long and Vance Meadows in Denver just to name a couple.Arrange for them to do the work on an hourly basis. Provide the patient with a time card insisting it indicate 'work time' only and not sitting or waiting time.

Private prosthetic companies usually have materials in stock, air valves, yoke bolts, modular materials, pipe receptors, etc. They do not have to go through the purchase order proceedure required by the government.

There would be no airline expense of transporting patients from Milwaukee, Salt Lake City or wherever to be inpatients at the V. A. facility.

What I have written is only a fraction of the problems I've encountered since my leg was amputated April 12, 1983.

If it should ever become necessary to personally testify, I would do everything possible to make myself available.

I would like to state that the patient representative at the Minneapolis V.A. never did arrange for me to have an interview with Mr. Thomas Monohan, Administrator or Dr. Fetzel, Chief of Medical Staff at Minneapolis.

In closing it should be noted that my condition is service connected, was incurred while in the service of the United States Military and certainly demands a more satisfactory conclusion than a prosthetic department declaring they are infallible and implying that the patient has functional problems.

John A Bell
476-16-8324

DISABLED AMERICAN VETERANS

V. A. CENTER
901 GEO. WASHINGTON BLVD.
WICHITA, KANSAS 67211

ok

September 24, 1987

Charles E. Joeckel, Jr.
Executive Director
Washington Headquarters
Disabled American Veterans
National Service & Legislative Headquarters
807 Maine Avenue, S.W.
Washington, D.C. 20024

Dear Mr. Joeckel:

RE: Memo of September 18, 1987, Denial or Delay of Furnishing Prosthetic Devices to Service Connected Disabled Veterans

In response to your memorandum of September 18, 1987, regarding the denial or delay of prosthetic devices to service connected disabled veterans, be advised that the Wichita facility certainly has its share of problems. It would be quite difficult to provide you with the names and claim numbers of all individuals who have experienced problems with our prosthetic facility, but I will furnish you with three who come to mind immediately. The ① first is; John A. Hill, a member of the DAV, claim number 23276346, who applied for an adaptive equipment grant through the Veterans Administration back in February 1987. His particular application was lost in the mounds of paper work that had accumulated and he was approved for the benefit only after I continually badgered the prosthetic representative, and threatened him on several occasions to complain to the director about his service. Immediately following that threat, he processed the application and supposedly sent it to the Regional Office for processing. John's application as well as two other veterans' applications (both of whom I cannot identify at this time) were all lost in the shuffle and to this date have not paid. Those individuals were notified by prosthetics that they would have to resubmit all of the information previously submitted, in order to appropriately process their claim.

Another example would be Robert G. Patterson, claim number 5204751, who currently suffers from a severe bilateral knee condition which warrants a maximum disability compensation rating. Mr. Patterson is 82 years old and has extreme difficulty in ambulating. He lives in an older two story house and has an invalid wife who has to be cared for at all times. The only bedroom in the home is located in the upper story. Mr. Patterson has extreme difficulty navigating the stairs when trying to serve his wife meals, etc. A request was submitted to the prosthetic division in early 1986 to provide Mr. Patterson with a chair lift to assist him in going up and down steps. One delay lead to another and although we were continually informed that Mr. Patterson would be allowed a chair lift, it was almost eleven months before final authorization and installation took place. At the present time we are attempting to obtain a motorized scooter for Mr. Patterson, to allow him to shop for his own groceries and get out of the house occasionally. We received an immediate denial on this request with the explanation that he "just wasn't eligible".

A third example would be Barry E. Horowitz, claim number 29665481, who has applied for, and been denied, eligibility for a clothing allowance based on the use of his scrotal support. Mr. Horowitz currently receives a service connected disability rating for the loss of one testicle and epididymitis of the remaining testicle which manifests itself in severe swelling and discomfort. He is forced to wear a scrotal support continuously and has applied for clothing allowance based on his need to replace his underwear quite frequently. Upon his first application for the clothing allowance he was granted benefits and subsequent requests have met with denial. He has provided worn out samples on an annual basis but continues to meet with a denial. Mr. Horowitz has become quite incensed over the denials and has gone on letter writing campaigns to various Congressmen and various Service Organizations to express his discontent.

There are numerous other problems associated with our prosthetic office which I will not attempt to describe to you at this time. However, I believe that our problem lies in the abilities of our prosthetic officer. Marcus Schmidt, the prosthetic representative, is for all practical purposes a quadriplegic. Approximately a year to eighteen months ago he suffered from a severe seizure disorder which has created a change in his overall personality and ability to perform. We have all tried to work real hard with Marcus to assist him in getting benefits through to veterans, but he has simply become so over loaded that there is no way he can catch up.

His clerical staff is somewhat helpful, but because of the difference in Marcus' personality, there always seems to be clashes within the office making it even more difficult to meet the demands of the local veteran requests. These difficulties have recently been shared with the powers to be in the Wichita VA hospital, who are working with Marcus to try to alleviate some of the problems in their service.

We appreciate DAV National Headquarters concern over this problem and would welcome your positive input in correcting the problems we have with the prosthetic service, not only locally, but nationwide.

Sincerely,

Charles D. Luttjohann

Charles D. Luttjohann, NSO
Disabled American Veterans
Wichita, KS

CDL/dd

Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

4500 S. LANCASTER RD. • DALLAS, TX 75216 • (214) 376-5481 Ext. 8247

dk

September 24, 1987

Mr. Charles E. Joeckel, Jr.
Executive Director
Disabled American Veterans
National Service & Legislative Hdqs
807 Maine Avenue, SW
Washington, D. C. 20024

Re: Delays in Furnishing
Prosthetic Devices

Dear Mr. Joeckel:

In response to your request of September 18, 1987, I have been unable to identify any specific eligible veterans who have encountered excessive delays in receiving prosthetic devices from the Dallas VA Prosthetic Service.

Some delays have been incurred in the third month of the last two fiscal quarters due to depletion of the Prosthetic Service budget prior to the end of the quarter, however, the problem was recognized well in advance and supplemental funding was requested. Prosthetic requests for spare items (e.g. 2nd wheelchairs) and supplemental items (e.g. sports wheelchairs) were delayed approximately two weeks until the supplemental funding was received. The problem was identified by this Prosthetic Service in sufficient time to allow ample funding for the more necessary items to be furnished timely, and the impact in overall delivery time was slight.

This Medical Center Director has proven sensitive to the needs of the Prosthetic Service and has fully approved the services request for supplemental funding for the past two quarters in the amount of $35,000.00 and $70,000.00, respectively.

This Prosthetic Services ability to continue timely delivery in the future is tenuous at best, due to the

Veterans Administration's current budget estimation policies and the unique problem of the Prosthetics Service to estimate or forecast future needs. This is due in part, to the great differential in costs of line items, where delivery of one or two of the more expensive line items could impact the budget as much as $6,000 or $7,000.

Should specific cases be encountered in the future, we will identify them for future reference and they will be available at your request.

Sincerely,

George T. Jeter
National Service Officer

GJ/al

DISABLED AMERICAN VETERANS

dl

V.A. REGIONAL OFFICE
FEDERAL BUILDING, ROOM 802
210 FRANKLIN ROAD, S.W.
ROANOKE, VIRGINIA 24011

MEMO TO: Charles E. Joeckel, Jr, Executive Director
Washington Headquarters

FROM: Roy E. Spicer, Supervisor

SUBJ: Denial or Delay of Furnishing Prosthetic Devises

DATE: September 24, 1987

In response to your memorandum of September 18, 1987, I have identified three cases in which disabled veterans have been subjected to denial of or delay in receiving required prosthetic devices. The three cases are outlined as follows.

1. James R. LaPrade
C# 3 804 808
SS# 231-16-7807

Mr. LaPrade is service connected for a right A/K amputation. He was supplied with a new primary artificial limb (ISNY socket type) in 1985. According to Mr. LaPrade, he was left under the impression that an additional limb of the same type would be issued as a spare. After significant delay, this veteran asks that we intervene in his behalf. I conversed with the Chief of the Prosthetic Department, VAMC, Richmond, Virginia, on March 19, 1986, and by letter (copy attached) of March 21, 1986, I entered a formal request in the veterans behalf asking that he be issued an updated prosthetic limb. This request was denied by the Chief of the Prosthetic Treatment Center by letter dated March 27, 1987 (copy attached). At the veteran's request, we took action on May 12, 1986 (copy attached) to file a Notice of Disagreement with the 3/27/86 letter. After filing the substantive appeal, and after much delay we made a formal inquiry in the veteran's behalf seeking the status of the pending appeal. Finally a letter was received from the Chief of the Prosthetics Department on June 10, 1987 advising that they had in effect reversed their prior decision (copy attached).

2. Issac L. Fields
C# 25 212 682

On May 5, 1987 Mr. Fields requested that we intervene in his behalf to determine the status of an order for a replacement of a long leg locket knee brace. He indicated that he had been waiting approximately eight weeks for this replacement. On 6, May, 1987, the Prosthetic clerk at VAMC, Salem, Virginia was contacted. It was learned that their procedure requires the submission of these orders to the VA Prosthetic Treatment Center, VAMC, Richmond, Virginia and in turn a request for approval and purchase order number has to be processed through VA Central Office. Apparently, the required process results in excessive delays.

3. Elwood H. Mays
C# 12 340 291
SS# 227-12-2364

This veteran has an ongoing problem in obtaining orthopedic shoes in a timely fashion through the VA Medical Center, Salem, Virginia. The veteran needs two pairs of shoes, one for everyday wear, and one for dress wear. The problem lies in that VAMC, Salem, will only order one pair at a time. Therefore, by the time he receives his everyday pair, he has had to wear his dress pair for everyday use and vice versa. According to the veteran, he never seems to be able to maintain two pairs of useful shoes at one time. He has also had problems with special molds being broke in shipment between the VA Medical Centers. He indicates that it takes a significant amount of time to have the molds made, but the VA will not approve them until he needs a new pair of shoes. Additionally, coordination between VAMC, Salem and Richmond, Virginia adds to an already long-waiting period.

Roy E. Spicer
ROY E. SPICER
SUPERVISOR

res:scw

DISABLED AMERICAN VETERANS

V. A. CENTER
FEDERAL BUILDING 192
FORT SNELLING
ST PAUL, MINNESOTA 55111

September 23, 1987

Mr. Charles E. Joeckel, Jr.
Executive Director
Disabled American Veterans
807 Maine Avenue, S. W.
Washington, D.C. 20024

Dear Mr. Joeckel:

In reply to your correspondence of September 18, 1987, it was felt appropriate that I respond to this correspondence, as I have been involved with the STAMP Program here in Minneapolis, Minnesota.

With the assistance of the Prosthetic Chief, I was able to secure the approval for construction of a right above-knee prosthesis under the STAMP Program. The purpose of this prosthetic device was to enable me to have a backup prosthesis and exposure to prosthetic appliances, such as the Seattle Foot.

Over a period of time I was finally casted for the prosthesis. The Veterans Administration Prosthetic Department at Ft. Snelling attempted to fabricate a suction-type socket for me. There were attempts by the V. A. Prosthetic Department to make this suction-type socket functional however because of my stump the suction-type socket was not functional. It was than decided that construction on a replacement leg should be authorized and the leg under the STAMP Program was deferred. The construction of the replacement leg was contracted to a private limb company, however, a suction-type socket was ordered.

Following a three to four month period of time, during which attempts were made to provide a functional leg, I appeared before the V. A. Amputee Clinic requesting that a new socket be authorized other than suction. I was advised by the consulting physician at the Amputee Clinic that a new socket was not feasible and the private prosthetic firm was advised to adjust the suction socket to a semi-suction to be worn with a belt. Though I attempted to explain to the physician that I did not feel that this semi-suction socket was desirable, I was advised to fish or cut bait. This occurred in the beginning of 1987. I have now received this prosthesis, however, I cannot wear it.

In April or May of 1987 I was again casted for the prosthesis under the STAMP Program. As of this date there has been no further development or action on this prosthetic device. I have spent two years waiting for a prosthesis under the STAMP Program and a replacement prosthesis and have neither at this time.

I have contacted John Bell a veteran who I know also had problem with the STAMP Program, however, he is now in Florida for the winter and his statement is not available at the time of this letter. Mr. Bell will be sending a statement expressing his views and opinions. It will be forwarded when available.

Sincere yours,

DENNIS D. MENSING
NATIONAL SERVICE OFFICER

DDM:dr

UWr 11/7/10

DISABLED AMERICAN VETERANS

ok

September 28, 1987

Mr. Charles E. Joeckel, Jr.
Executive Director
Washington Headquarters
Disabled American Veterans
807 Maine Avenue, SW
Washington, DC 20024

RE: MCMANUS, JAMES J.
C# 9 937 194
SS# 077 18 6461

Dear Mr. Joeckel:

In response to your September 18, 1987, memorandum requesting information regarding the denial or delay of prosthetic devices being furnished to service connected disabled veterans, we offer the following information.

Please find attached a letter dated October 31, 1986, from Mr. John J. McManus. This letter indicates that the veteran had been waiting for over a year for hearing aid batteries as of his letter dated October 31, 1986. This letter was a transmittal letter sending the batteries that had been sent in error back to the Veterans Administration. Please see the note at the bottom of the page indicating that as late as July 7, 1987, the veteran still had not received his batteries.

NSO Lennox Gilmer contacted Prosthetics Unit in Denver, Colorado on July 15, 1987, to confirm whether they had sent the veteran the proper batteries. The call to Denver was initiated following numerous calls to the Prosthetics Unit, Washington, D.C., VA Medical Center and indications by Mr. Nelson at that location that he could not do anything about this matter. The call to Denver Prosthetics indicated that the batteries had been mailed on approximately July 3, 1987. Shortly after July 15, 1987, the veteran did receive his batteries.

In summary, the veteran had to wait almost 20 months, according to his correspondence, before he received the appropriate batteries for his hearing aid. Local calls to Prosthetics Unit were not helpful and only after the call to Denver Prosthetics about July 15, confirming that the batteries had already been sent July 3, 1987, did the veteran receive his batteries.

Sincerely,

James W Stewart

JAMES W. STEWART
National Service Officer
Supervisor

JWS:tau

October 31, 1986

Stanley Nelson, Chief
Prosthetics Division
Veterans Administration Hospital
50 Irving Street
Washington, D. C.   20422

Dear Mr. Nelson:

After waiting over a year for hearing aid batteries -- the wrong size arrived!

With this letter I am returning 24 Activair 2 model 312 HP and 36 Rayovac Air 4000 model-312ZA4 batteries. Also for your use we are sending the shipping order that confirms the mistaken order for battery size 312.

The hearing aid issued to me by the Veterans Administration uses a 13 HP. Would you please have your supplier send me replacements for the ones I am returning.

Thanks!

Cordially,

077186461
C9937194

John J. McManus
1320 North Greenbrier Street
Arlington, Virginia   22205

C 9937194
ASN 12176146
SS 077186461

Attachments

ECEIVE

7-1-87
Mr. Gilman —
As of today still no
batteries! Two years!
(One or two emergency batteries
sent from Mr. Nelson —
been securing them [illegible]

DISABLED AMERICAN VETERANS

V. A. HOSPITAL
921 NORTHEAST 13th STREET
OKLAHOMA CITY, OKLAHOMA 73104

September 29, 1987

Mr. Charles E. Joeckel, Jr.
Executive Director
Washington Headquarters
DISABLED AMERICAN VETERANS
National Service & Legislative Headquarters
807 Maine Avenue, S.W.
Washington, D. C. 20024

Dear Sir:

In reference to your letter dated September 18, 1987, Denial or Delay of Furnishing Prosthetic Devices to Service-connected Disabled Veterans.

Delays have occurred in providing prosthetic equipment due to a lack of funds. The prosthetic funds control was reduced by 7% per cent at the beginning of the second quarter. At the end of the second quarter, prosthetics requested $45,000.00 from resources and was funded only $26,000.00 dollars. Delays in processing several prosthetic items were encountered until the beginning of the third quarter.

Presently, Prosthetics is holding nine (9) purchase orders for $19,263.00 which have been on hold for approximately one month and will not be obligated until October 1, 1987.

Prosthetics was supplemented in the second, third, and fourth quarter for a total of $86,000.00. Prosthetics had requested $112,000.00.

Through the efforts of the DISABLED AMERICAN VETERANS at this facility, we have been directly involved with assisting in this area of need, having repaired at our own expenses approximately 1400 wheel chairs and beds, by DISABLED AMERICAN VETERANS Volunteers.

The impact on patients thus for has been moderate.

Sincerely

JAMES T. DANIELS
Department Service Officer

JTD/wj

YASH, Paul J.
C-07-672-555

This WW2 veteran presently rated 100% plus SMC "k" & "S" was approved for air conditioning with his auto grant and adaptive equipment ten years ago. Kept vehicle for ten years and purchased a new auto. Claim for reimbursement of auto equipment approved but air conditioning denied on second auto.

Same veteran was approved for (HISA) and because he was and is using canadian crutches, was approved for a "garage door opener" as he can't raise his arms. When came time to be installed this special equipment (approximately $200) was denied. Reason unknown.

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CALDWELL, James L.
C-24-158-946

This Vietnam combat disabled veteran rated combined 60% received wounds to the side of head. S/C includes partial paralysis of one side of the face and veteran unable to close one eyelid. Because of this he uses eye drops and ointment. Was recommended for tinted sunglasses to avoid light sensitivity. Veteran states he doesn't need medication in eye when he uses glasses. His job takes him out-doors frequently. Eyeglasses (tinted) were denied on the basis the eye medication should handle problem. The cost of the eye medication over the years will far out-distance the cost of tinted eye glasses.

BAKER, Thomas D.
C-26-346-611

This Vietnam combat disabled veteran has been rated 100% for LOU both feet plus SMC for Subsection "M1/2." The veteran is totally wheelchair bound. Had one wheelchair in his possession in early 1987 when it required repair. Was given a temporary by the VAMC while wheel chair was being repaired. The temporary chair was in operable and veteran sought help from the local DAV Chapter. No wheelchairs were available which restricted his ability to do ordinary out-of-house activities. DAV members pitched in to do what they could. Veteran was hospitalized for stress reaction problems and the inconviences by lack of a functional chair didn't help this situation. Veteran was told he could not be issued a back-up chair.

PEASLEY, Robert J.
C-26-859-844

This veteran was service connected for varicosities of the right lower leg. Recent unhealed ulcer caused the need for an amputation. The veteran experienced many months delay in being fitted for a prosthetic to due problems scheduling or lack of scheduling appointments with prosthetic because of non-communication between surgical service and prosthetics. Dr. Kahn, Rehab. Physician was also upset over situation.